



C. A. Barton
President
International Ventures
Asia/Pacific

AT&T Asia/Pacific Group Ltd.
30/F Shell Tower, Times Square
1 Matheson Street
Causeway Bay, Hong Kong
Phone: (852) 2506 5111
Fax : (852) 2506 5027
Email : cbarton@att.com

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Mr. Andrew Haire
Senior Director (Regulation & Operations)
Info-comm Development Authority of Singapore
8 Temasek Boulevard
#14-00 Suntec Tower Three
Singapore 038988

RE: Comments on the Review of Charging for Mobile Phone Services: Mobile-Party-Pays (“MPP”) vs. Calling-Party-Pays (“CPP”)

Dear Mr. Haire:

On behalf of AT&T Worldwide Telecommunications Services Singapore Pte. Ltd. (“AT&T Singapore”) and AT&T Corp. (“AT&T”), I am pleased to submit the following comments on the Info-communications Development Authority of Singapore Consultation Paper, *Charging for Mobile Phone Services: Mobile-Party-Pays (“MPP”) vs. Calling-Party-Pays (“CPP”)*, issued on 11 January 2002 (the “*Consultation Paper*”). In its review of mobile phone service charging methods, the IDA has invited views on the financial, operational, and behavioral implications and impact of the move to a CPP charging method for mobile phone services. In particular, IDA is interested in the likely impact on both mobile and fixed line customers with the move to CPP. (*Consultation Paper* at ¶ 5(a)). Our comments below focus on one particular impact of a move to CPP: creating the ability for mobile operators to abuse their inherent market power for call termination on their network by charging excessive termination rates to interconnecting carriers.

AT&T Singapore, AT&T and its many affiliates, provide a significant volume of telecommunications services to and from Singapore. AT&T Singapore holds a Service-Based Operator (“SBO”) license and provides Managed Data Network Services and other value-added network services. Through the AT&T and British Telecommunications plc. joint venture, Concert, AT&T also shares a 50/50 controlling interest in Concert Global Networks (Singapore) Pte. Ltd. (“Concert Singapore”). Concert Singapore holds a Facilities-Based Operator (“FBO”)

license and provides various managed services and facilities-based connectivity services. Upon the upcoming dissolution of Concert, AT&T will own 100% of Concert Singapore, including its FBO license and its international facilities-based operations. Finally, the US operations of AT&T enjoy a significant bilateral voice business with Singapore correspondents, and an increasing proportion of this bilateral traffic originates or terminates on Singapore mobiles.¹ We have an interest in the *Consultation Paper* because the CPP charging method has resulted in unconstrained excessive mobile termination rates in many other countries, harming interconnecting fixed operators, their customers (i.e., both international carrier customers and end user customers) and the broad public interest. As discussed below, if CPP is introduced in Singapore, IDA must establish *ex ante* controls to ensure that Singapore mobile operators do not use their market power over calls terminating on their network to charge excessive rates to interconnecting carriers.

To assess the financial, operational and behavioral consequences of a move to CPP, it is sensible to learn from the experiences of other jurisdictions that currently use CPP. At present, several regulators are engaged in proceedings aimed at reducing excessive and competitively unconstrained mobile call termination rates – a problem that is caused in large measure by the CPP charging system. Applying competition law analysis, many regulators are reaching the conclusion that mobile network operators are able to charge (and in fact are charging) excessive mobile termination rates because each operator has monopoly power in the supply of termination to its own network.² The market for mobile call termination is defined so narrowly because of some notable structural problems: (1) there is no effective demand-side call termination substitute embraced by the calling party or the called party, because the potential substitutes would undermine the quality and convenience factors that create demand in the broader mobile calling market;³ (2) there is no effective supply-side call termination substitute, as this would require a competing operator to have access to the details of the end user's SIM card;⁴ and most important to this IDA proceeding, (3) the CPP methodology provides mobile operators with *the incentive and ability* to maintain excessive termination charges, allowing them to disproportionately shift network costs to the interconnecting fixed line carrier.

¹ From 1999 to present, the percentage of our US to Singapore mobile-terminating bilateral traffic steadily increased from approximately 4% to over 15% of total terminating traffic. Given this growth rate, if a move to CPP results in increased termination charges, there will be an adverse impact on interconnecting carriers.

² See, e.g., *Review of the Charge Control on Calls to Mobiles*, <http://www.oftel.gov.uk/publications/mobile/ctm0901.htm> (26 Sept. 2001) (UK); *PTS Decision that Europolitan Vodafone, Tele2 and Telia have SMP in the Interconnection Market*, <http://www.pts.se/dokument/getFile.asp?FileID=2710> (21 Feb. 2002) (Sweden); *Prices of Interconnection Services Applied by Mobile Telephone Service Operators*, <http://www.anacom.pt/template12.jsp?categoryID=31459>, (24 Jan. 2002) (Portugal); *AGCOM Investigation of TIM and Omnitel Mobile Termination Rates*, http://www.agcom.it/provv/d_486_01_CONS.htm, (3 Jan. 2002) (Italy); *BiPT Opinion Imposing Reduction in Mobile Termination Rates of Belgacom Mobile*, http://www.bipt.be/Actualites/Communications/avis_11012002.pdf, (17 Dec. 2001) (Belgium); *ART Decision 01-970 and 01-971 Finding Orange and SFR as Having SMP in the Interconnection Market and Setting Reduced Mobil Termination Rates*, <http://www.art-telecom.fr/communiqués/pressrelease/2001/36-2001.htm>, (16 Nov. 2001) (France).

³ For example, the following are not acceptable demand-side substitutes to a voice call to a mobile: calling them at a fixed line instead, sending short text messaging rather than voice calls, or using call back.

⁴ Supply-side substitution is unlikely because of the need for details of a consumer's SIM card, and a mobile operator can easily frustrate supply-side substitution by refusing to share the necessary information.

Notwithstanding the ways in which CPP might play a positive role in growing the broader Singapore mobile market by reducing costs to mobile subscribers and potentially stimulating calls to mobile networks, it also contributes to the most endemic structural flaw in the narrower mobile termination market. With CPP, the person who initiates the call to the mobile phone pays the mobile network operator for the mobile termination, whereas the person who receives the call (and who is a customer of the mobile operator) is not charged for the termination. This disjunction of the party who may select the mobile operator from the party who must pay the mobile operator is a recipe for market failure.⁵ As an overall effect, whereas the mobile operator has an incentive to keep the price of those services required and paid for by the mobile user at a level to attract and retain customers, they have less incentive to keep the price of calls terminating on mobiles low. Because calling parties cannot take their business elsewhere if they need to reach a specific customer on the mobile operator's network, and because mobile users are unlikely to select their network provider on the basis of termination charges that they never see nor pay,⁶ introduction of CPP could allow Singapore mobile network operators to collect excessive charges from interconnecting carriers. This incentive and ability directly translates into the narrow monopoly market (call termination) cross-subsidizing the broader competitive mobile market (including, e.g., call origination plans, or handsets). Make no mistake: excessive charges have been the standard in other countries utilizing CPP, and they have disserved the broad public interest by fostering inefficient investment and operations, and by distributing benefits and costs in a manner unfair to non-mobile subscribers.

If IDA adopts a CPP methodology, then for the reasons discussed, in tandem it will need to adopt regulatory controls to prevent mobile operators from abusing their market power in the call termination market. AT&T advocates use of deregulatory market-based solutions whenever possible. In most circumstances, because competitive market forces can overcome market failures and can respond dynamically to consumer needs, a light-handed approach to regulation will achieve better results for the public than would regulatory intervention. However, in those circumstances where market failures make it impossible for competitive forces to discipline rates effectively, it is both proper and necessary to intervene with direct regulation. Unconstrained mobile call termination rates – fueled by the CPP methodology that provides no incentive for mobile operators to reduce termination charges – will sit squarely within this latter category until suitable demand or supply substitutes emerge. It would be proper for IDA to protect the public

⁵ Although our comments primarily focus on market failures in the call termination market, we must highlight another concern that occurs when the party who selects the mobile operator does not pay the mobile operator for their local airtime. Several mobile operators in other countries are demanding that the international operators compensate the mobile operator for the domestic portion of calls to International Toll-Free and Home Country Direct calls, because the mobile operators view these as “free-phone” service. When the originating airtime is passed-through, the fee can be set at an excessive level in much the same manner as terminating charges are set in the competitively unconstrained CPP environment. AT&T Singapore firmly believes that the mobile operators should charge their mobile subscribers directly for the local airtime on all originating calls, with the international portion of the call charged to the international operator, and in turn, the ITFS customer.

⁶ Indeed, end user customers may even have indirect incentives to choose a mobile operator with the highest termination rates because greater access revenues may permit the mobile operators to cross-subsidize even lower originating rates to its subscribers. Most subscribers are more likely to choose their mobile operator on the basis of handset choice and price of outgoing service, and very few customers will take into account the level of terminating call charges that are passed to a third party.

interest by classifying mobile operators as dominant in the mobile sub-market for call termination services,⁷ and thereby requiring cost-based charge controls.⁸

Where regulation of termination charges will be necessary to protect consumers, the IDA should require rates based on a LRIC methodology. This is because LRIC best replicates prices that would be charged by carriers subject to competitive market pressures, and best ensures an efficient utilization of the service in question. At this early stage in the IDA's analysis of whether to implement CPP, AT&T Singapore will not distract your attention from the matter at hand by detailing the LRIC model that would be necessary *if* you move to CPP. However, if IDA determines that it will promote CPP, and if the IDA also concludes that in a CPP environment mobile termination charges must be controlled by regulation because they will not be constrained in the foreseeable future by competitive forces, then we will comment on the detailed elements of a LRIC model for call termination charges.

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For the above reasons, AT&T Singapore encourages the IDA to take into account the full implications of a move to CPP, and in particular to consider the potential for mobile operators to extract excessive rates from interconnecting fixed line carriers that cannot meaningfully influence or avoid the high termination rates. In a CPP environment, it is both proper and necessary to require mobile operators to charge cost-based rates for call termination services.

I would be pleased to respond to any questions concerning these comments and to provide any further information that would be helpful to the IDA. Please do not hesitate to contact me in that regard.

Respectfully submitted,

C. A. Barton

⁷ See Code of Practice for Competition in the Provision of Telecommunications Services, S 412/2000 at ¶ 2.2.1 (published Sept. 15, 2000) (basis to classify an operator as dominant). Although it is our view that mobile operators are dominant in the narrow mobile call termination market, it is not our current view that any Singapore mobile operators is dominant in the broader mobile services market.

⁸ *Id.* at ¶ 5.3.5.6 (dominant carrier pricing for all Interconnection Related Services must be cost-based).