



**COMMENTS OF BRITISH TELECOMMUNICATIONS TO THE IDA
PUBLIC CONSULTATION ON REQUEST BY MCI WORLDCOM ASIA
PTE LTD, MCI INC AND VERIZON COMMUNICATIONS INC FOR:**

**(A) EXEMPTION FROM FILING LONG FORM CONSOLIDATION
APPLICATION IN RELATION TO THE PROPOSED
ACQUISITION OF MCI BY VERIZON; AND**

(B) APPROVAL OF THE CONSOLIDATION APPLICATION

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COMMENTS OF BRITISH TELECOMMUNICATIONS TO THE IDA PUBLIC CONSULTATION ON THE MCI/VERIZON REQUEST

SUMMARY OF MAIN POINTS

- BT thanks the IDA for the opportunity to provide comments on the proposed MCI/Verizon Request¹.
- This proposed MCI/Verizon consolidation application resembles the earlier AT&T/SBC consolidation application which was also subject to an IDA public consultation². The issues arising from the proposed MCI/Verizon consolidation are similar to the AT&T/SBC consolidation and as noted in BT's comments to the IDA public consultation on the AT&T/SBC consolidation application, the key points are set out below. Broadly these are the consolidation of the Internet Backbone (IB) space with material detriment to third parties, including ISPs, consumers and business users and secondly, the provision of Global Telecommunication Services (GTS) to third parties.
- The impact of this merger on the IB market will be especially problematic given the scale of the MCI IB combined with the rapidly increasing scale of Verizon, particularly given the greatly increasing number of "eyeballs" which will be brought to this backbone by Verizon.
- The MCI/Verizon Request has not demonstrated that the post-consolidated entity will not have the ability to leverage its position in the US market to impede competition in the Singapore telecommunication market. Specifically, the MCI/Verizon Request does not discuss the regulatory safeguards that are in place or will be put in place to address potential discriminatory behaviour between its upstream and downstream businesses. As such, the MCI/Verizon Request should be rejected and the parties should be required to file a Long-Form Consolidation Application in accordance with Section 10.5.1 of the Code³.

Global Telecommunication Services (GTS)

- The provision of GTS is highly dependent on local connectivity. Given that the provision of GTS is of an international nature, no one GTS provider is able to provide GTS on the basis of its own infrastructure and in particular, will have to rely on a domestic service provider for local access to connect to customer sites. The importance of local access in the provision of GTS is premeditated on the fact that an estimated **[CONFIDENTIAL INFORMATION]**⁴ of the total cost of providing GTS is attributable to the cost of local access.

¹ Request by MCI Worldcom Asia Pte Ltd, MCI Inc and Verizon Communications Inc for: (a) Exemption from filing long form consolidation application in relation to the proposed acquisition of MCI by Verizon; and (b) Approval of the consolidation application

² IDA Public Consultation on (a) Request by AT&T Worldwide Telecommunications Services Singapore Pte Ltd, AT&T Corp and SBC Communications Inc for exemption from long form consolidation application in relation to the proposed acquisition of AT&T Corp by SBC Communications Inc; (b) The proposed change in ownership in AT&T Worldwide Telecommunication Services Singapore Pte Ltd arising from the above consolidation, issued on 23 June 2005

³ Code of Practice for Competition in the provision of Telecommunication Services, 18 February 2005

⁴ BT's letter to IDA dated 21 February 2005 RE: Consultation Paper issued by the IDA on Preliminary Decision regarding the request of SingTel for exemption from dominant licensee obligations with respect to International Capacity Services (ICS) market

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- There is a sizeable base of US multinational corporations in Singapore⁵ and the US is also Singapore's second largest trading partner. The ability for Singapore-based GTS providers to compete on a level playing field for A-end US multinational business is also dependent on the effectiveness of US regulation on special access and will need to be able to procure US special access services on *at least* a non-discriminatory basis and at cost-based⁶ rates.
- The proposed MCI/Verizon consolidation will further increase Verizon's market power over special access by eliminating the largest competitors and customers of special access – MCI and AT&T. Specifically, the mergers will eliminate the two largest facilities-based competitors as well as the two largest wholesale competitors for special access. The mergers raise barriers to entry by: (i) eliminating sufficient independent demand and supply for special access so as to make competing entry uneconomic, and (ii) raising brand barriers to entry. The result will be even higher prices for special access and a greater likelihood of discrimination in the provisioning and maintenance of those facilities. The mergers will also have a vertical anticompetitive affect as the now even more powerful upstream special access providers acquire the dominant downstream enterprise customer providers. The result will be a substantially greater likelihood of price squeezes against competitive providers, reliant on the key special access inputs from the post-consolidated entity.
- Existing shortcomings of the US regulatory regime are also highlighted in a recent CompTel/ALT report⁷. These are particularly relevant in special access regulation. To the extent that regulatory safeguards are insufficient, conditions should be imposed under Section 10.7.3 of the Code to remedy any gaps.

Internet Backbone (IB)

- The explanatory memorandum on IDA's decision to the AT&T/SBC consolidation application⁸ states that *'IDA remains concerned that Singapore-based Internet providers are required to purchase "full circuits" to the US to obtain Internet connectivity and cannot enter into peering arrangements with Tier 1 Internet backbone providers in the US', and that 'the US is a key Internet destination to which a relatively high portion of Singapore's Internet traffic is sent'*. Notwithstanding, there are no proposed remedies to address these concerns.
- If Singapore-based ISPs are presently unable to peer with Tier 1 ISPs, there is no good reason to assume that the AT&T/SBC and MCI/Verizon consolidations will favorably change the current arrangement. In fact, the MCI/Verizon consolidation will exacerbate

⁵ Over 1,300 US companies operate in Singapore and over 300 US companies have their Asia Pacific bases in Singapore. Source: Singapore Economic Development Board, Singapore – *Linking Businesses in the United States to Asia Pacific*, 2004

⁶ US-Singapore FTA, Chapter 9 – S9 (a) Provisioning and pricing of leased circuit services... at rates that are *reasonable*...

⁷ A copy of the CompTel/ALT Report can be downloaded from www.spcnetworks.co.uk. Reference to CompTel/ALT press release is in *Comments of BT to IDA Public Consultation on AT&T/SBC Request*, 7 July 2005, Annex 1.

⁸ Explanatory Memorandum on the decision of the Info-Communications Development Authority of Singapore regarding (a) Request by AT&T Worldwide Telecommunications Services Singapore Pte Ltd, AT&T Corp and SBC Communications Inc for exemption from long form consolidation application in relation to the proposed acquisition of AT&T Corp by SBC Communications Inc; (b) The proposed change in ownership in AT&T Worldwide Telecommunication Services Singapore Pte Ltd arising from the above consolidation, issued on 18 August 2005, pp21



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the exclusion of non-US based ISPs from the Tier-1 “super-club” structure and lead to price increases of IP-based communication services to consumers and businesses. The commercial risk that existing agreements will be revoked and downstream access seekers forced to pay and/or pay more for access to the Tier 1 “super-club” is very real. This outcome would be undesirable given that the Next Generation Networks (NGNs) will be IP-based and will have to rely on the IB for transport. With convergence, the transport of both voice and data traffic will be unified over this IB. If control to this IB is dominated by a group of Tier 1 “super-club” carriers in an oligopoly market structure, the cost of interconnecting to the Tier 1 IB will only increase and this will eradicate all the benefits of IP-based NGNs professing the delivery of cost benefits and convenience to consumers and may even delay NGN deployment. As a *minimum*, conditions should be imposed to preserve the status quo.

- The Declarations of Michael Kende⁹ on the market shares of MCI in the IB market based on IDC revenue data are backward-looking for 2002/3 (when MCI was in disarray struggling to emerge from their accounting fraud and bankruptcy reorganization) and are not representative of the evolving IB market structure and therefore underestimates the fortified post-Chapter 11 MCI’s current and projected market share. Using the same IDC revenue data and Mr. Kende’s own extrapolation technique, BT submits a forward looking approach to market share calculations demonstrating that MCI and AT&T combined, control over 50% of the global IB market this year¹⁰. And this control comes without even factoring in the significant number of “eyeballs” and captive traffic that they will gain immediately after their mergers with cash-rich local access incumbents, Verizon and SBC respectively. Moreover, the Telegeography data presented by Mr. Kende confirms BT’s calculations placing MCI as number 1 IB provider from 2000 to date, followed by AT&T. This market position will be materially enhanced with the explosive growth in traffic brought to the backbones by new DSL traffic from the incumbent providers, Verizon and SBC.

⁹ Attachments 3 and 16 of the MCI/Verizon Request

¹⁰ Preston, MacFarland & Gurra, *An Economic Analysis of the Competitive Effects of the SBC/AT&T and Verizon/MCI Mergers on the Internet Backbone Market*, Economists Incorporated, 20 July 2005