

**SUBMISSION OF SINGAPORE TELECOMMUNICATIONS LIMITED**

**REVIEW OF INTERNATIONAL SETTLEMENT ARRANGEMENTS  
RELATING TO THE PROVISION OF INTERNATIONAL  
TELECOMMUNICATIONS SERVICES**

**28 February 2002**

## 1. INTRODUCTION

- 1.1 Singapore Telecommunications Limited (**SingTel**) welcomes the opportunity to submit our views and comments to the Info-communications Development Authority of Singapore (**IDA**) in relation to the industry consultation paper with respect to the review of international settlement arrangements relating to the provision of international telecommunications services.
- 1.2 SingTel is licensed to provide telecommunications and postal services in Singapore. It was corporatised on 1 April 1992 and listed on the stock exchange in November 1993. SingTel is committed to the provision of state-of-the-art telecommunications technologies and services in Singapore.
- 1.3 As a leading provider of telecommunications services and a leading proponent of innovation and competition, SingTel has a strong interest in effective regulation of Singapore's telecommunications industry.

## 2. EXECUTIVE SUMMARY

- 2.1 Our views and comments may be summarised as follows:
  - Differences in the degree of liberalisation and competition from country-to-country mean that foreign operators whose domestic markets remain largely closed may engage in anti-competitive practices such as whipsawing and one-way bypass to extract higher international settlement rates and/or obtain a greater share of international settlement revenues.
  - Whilst differences in the degree of liberalisation and competition from country-to-country continue to exist, *ex-ante* regulation is required to safeguard Singapore operators against anti-competitive practices such as whipsawing and one-way bypass.
  - SingTel supports the current approach of categorising countries into Category I and Category II. The criteria used by the IDA to categorise countries is appropriate and sufficient.
  - SingTel supports the imposition of parallel accounting and proportionate return with respect to Category II countries as these are effective measures in safeguarding against whipsawing and one-way bypass.

- SingTel recommends that the IDA adopt a complementary measure and prohibit International Simple Resale (ISR) operators from entering international settlement arrangements with foreign operators in Category II countries.
- The benefits of *ex-ante* regulation of international settlements outweigh any potential operational constraints. However, we believe that there is potential for the IDA to streamline the current filing requirements.
- The IDA should continue to impose on all operators the requirement to file accounting rates and provide traffic information for monitoring and enforcement purposes.
- SingTel does not support the publication of accounting rates or the publication of traffic information for Category II countries. We do not believe that publication will serve to minimise potential anti-competitive conduct nor will it serve to facilitate negotiations.
- Despite technological change and the availability of alternative methods of access, there is no compelling evidence which suggests that that this has enabled operators to effectively bypass the traditional international settlement regime to a significant extent.

### 3. VIEWS AND COMMENTS

The IDA has sought views and comments with respect to the following points:

- (a) *Are one-way bypass and whipsawing still serious concerns at this point of time? Are there other anti-competitive practices that should be considered? At which point of time do these cease to be of concern? What would be the appropriate signals or indicators to ascertain that there is sufficient competition in the market?*

- 3.1 Differences in the degree of liberalisation and competition exist from country-to-country. Given these differences, foreign operators whose domestic markets remain largely closed are able to engage in whipsawing and one-way bypass to extract higher international settlement rates and/or obtain a greater share of international settlements revenues.

- 3.2 As the IDA is aware, whipsawing occurs where a foreign operator uses its bargaining power against particular operators in a liberalised and competitive market to acquire a greater share of international settlement revenues by reducing the international settlement rates it pays and/or by increasing the international settlement rates it receives.
- 3.3 One-way bypass occurs where a foreign operator either sets up an affiliate in the liberalised market, or leases international private circuits in the liberalised and competitive market and terminates its own international incoming traffic. The domestic operators in the liberalised and competitive market are unable to obtain similar access in the foreign operators home market.
- 3.4 In an attempt to address this type of anti-competitive conduct, regulators (including the IDA) typically establish requirements for proportionate return and parallel accounting. As the IDA is aware, proportionate return requires the amount of traffic returned to an operator by the foreign correspondent to be determined by the proportion of total outgoing traffic originated by the operator's end-users i.e. if Operator A sends twenty (20) percent of their international traffic to Foreign Operator B for termination in that country, Operator A would expect to receive twenty (20) percent of Foreign Operator B's international traffic destined for termination in Operator A's country. Parallel accounting requires that each operator on an international route receive the same international settlement rate for terminating calls. It attempts to prevent a foreign operator originating traffic from negotiating lower international settlement rates by whipsawing competing operators providing termination for international incoming traffic. Further, imposing parallel accounting restricts the ability of a foreign operator competing in a liberalised and competitive country to gain an advantage over its competitors in that market.
- 3.5 In terms of other types of anti-competitive conduct which can be a concern, there is potential for foreign operators to engage in predatory pricing. Predatory pricing occurs where a foreign operator uses the international settlement revenue it receives from terminating traffic to subsidise a predatory pricing strategy of an affiliate in a liberalised and competitive market. We recommend that the IDA ensure that the existing competition framework is sufficient to address such behaviour.
- 3.6 SingTel strongly believes that so long as differences in the degree of liberalisation and competition exist from country-to-country the potential for foreign operators to engage in anti-competitive conduct such as whipsawing and one-way bypass remains. As such, the IDA should continue to impose appropriate *ex-ante* regulatory measures to protect Singapore operators from such behaviour.

- 3.7 SingTel supports the current IDA approach of categorising countries into Category I and Category II. We note that the IDA has identified a number of indicators of competition to determine whether a particular country should fall within Category I or Category II. SingTel believes that these IDA criteria are appropriate and sufficient for ascertaining whether there is sufficient liberalisation and competition in a particular country. We note that regulators in other jurisdictions such as the United States of America and Hong Kong adopt a similar approach in terms of categorising countries.
- 3.8 In summary, whilst differences in the degree of liberalisation and competition exist from country-to-country continue to exist, the potential for foreign operators to engage in anti-competitive conduct such as whipsawing and one-way bypass remains. IDA *ex-ante* regulation is necessary to safeguard against anti-competitive conduct and will continue to be required. SingTel supports the current IDA approach of categorising countries into Category I and Category II and believes that the criteria used by the IDA are appropriate and sufficient.
- (b) *Should the regulator continue to take an ex-ante approach or to take an ex-post approach instead? What would be the circumstances under which ex-ante approach would remain relevant or to consider an ex-post approach?*
- 3.9 As we have indicated above, there is a potential for foreign operators to engage in anti-competitive conduct such as whipsawing and one-way bypass. So long as there are differences in terms of the degree of liberalization and competition from country-to-country, *ex-ante* regulatory measures will be required to safeguard Singapore operators against such anti-competitive conduct. SingTel strongly believes that the IDA should continue to ensure that appropriate *ex-ante* regulatory measures are maintained to protect operators in Singapore from such behaviour.
- 3.10 An *ex-post* regulatory approach should not be considered until such time as the disparities in terms of degree of liberalisation and competition which exist from country-to-country are removed.

- (c) *How effective, or ineffective, are the parallel accounting proportionate return measures in addressing problems of one-way bypass and whipsawing? Would there be other more appropriate or effective measures that may be considered to achieve the policy goals? Or should there be other complementary measures? Do these measures pose operational constraints on operators? How can these measures be refined to alleviate the regulatory burden on operators?*
- 3.11 SingTel is of the view that *ex-ante* regulation requiring proportionate return and parallel accounting on Category II routes are effective measures to safeguard against anti-competitive conduct such as whipsawing and one-way bypass.
- 3.12 In addition to the current regulatory measures, SingTel would recommend that the IDA adopt a complementary measure and prohibit International Simple Resale (ISR) operators from entering international settlement arrangements with foreign correspondents in Category II countries. This measure would assist by reducing the potential for a foreign operator in a Category II country to engage in one-way bypass.
- 3.13 In terms of the operational implications of regulation, compliance does impose a certain level of operational constraints. However, this must be weighed against the benefits of regulation. SingTel believes that the benefits of *ex-ante* regulation of international settlements outweigh any potential operational constraints. Notwithstanding this, we believe that there is potential to streamline the current filing requirements. In this regard, SingTel would propose the following:
- (i) Whilst accounting rates should be filed by all operators, we would recommend that accounting rate agreements not be filed. In the event that the IDA believes that an operator is engaging in anti-competitive conduct and/or is not complying with the regulatory framework, the IDA may then seek to review the agreements on request.
  - (ii) To reduce the operational/administrative burden, SingTel would recommend that the frequency for filing accounting rate changes be aligned to that for traffic volume filing i.e. on a quarterly basis. This would significantly reduce the current burden imposed on the international gateway operators which have arrangements with a large number of foreign correspondents. Further, the accounting rate, once established with foreign correspondent, typically does not usually change within a quarter. However, in the case of new foreign correspondent relations (e.g. with a

new foreign operator or a Singapore operator establishing a relation with an existing overseas operator for the first time), the one (1) week requirement should continue to be imposed.

- (iii) Traffic volumes for the top destinations should continue to be filed on a quarterly basis.

3.14 In summary, SingTel believes that the imposition of parallel accounting and proportionate return on Category II routes is effective in guarding against anti-competitive conduct. SingTel would recommend the imposition of any additional complementary measure. Whilst regulation imposes operational constraints on operators, the benefits of such regulation outweigh the costs. Notwithstanding this, there are some refinements to the current regime which would assist operators by alleviating some of the operational and administrative burden without compromising the effectiveness of regulation.

- (d) *Would it be useful to continue to require operators to file: (i) their accounting rates and accounting agreements within 1 week of the conclusion of the agreement, and (ii) the volume of incoming/outgoing traffic on a route-by-route basis for the top 25 destinations on a quarterly basis? Should this requirement be levied on only certain operators to maximise the effectiveness of the measures in place? What would be the appropriate criteria to determine such a group of operators?*

3.15 The regulatory requirement to file accounting rates and provide traffic information is necessary for the IDA to monitor and enforce compliance with regulatory requirements for parallel accounting and proportionate return. The IDA should continue to impose these regulatory requirements on all operators.

3.16 SingTel would refer the IDA to our comments in (c) above with respect to the filing of accounting rates, accounting rate agreements, complementary regulatory measure and refinements to the existing regulatory requirements.

- (e) *Would the publishing of the accounting rates and the aggregate figures of all inbound and outbound international traffic volume for Cat II routes be useful to: (i) minimise the potential for anti-competitive arrangements; and (ii) facilitate negotiations between carriers? How would the publication of such rates help to achieve these goals?*
- 3.17 SingTel does not support the publication of accounting rates or the publication of traffic information for Category II countries. We do not believe that publication will serve to minimise potential anti-competitive conduct nor will it serve to facilitate negotiations.
- 3.18 As the IDA can no doubt appreciate, international settlement agreements typically contain confidentiality provisions. Publication of accounting rates may place an operator in breach of its agreement with respect to confidentiality. In terms of traffic information, this information is typically used during the course of negotiations. Far from assisting operators, publishing the traffic information may in fact serve to reduce the negotiation position of operators when negotiating with foreign operators.
- 3.19 SingTel would strongly recommend that the accounting rate and traffic information provided by an operator to the IDA remain confidential.
- (f) *Are there any advantages, or drawbacks, from continuing to impose, or to lift, the parallel accounting and proportionate return for Cat II countries? How would these arise?*
- 3.20 As we have submitted above, the imposition of parallel accounting and proportionate return are necessary measures to protect against anti-competitive behaviour such as whipsawing and one-way bypass.
- 3.21 Should the IDA remove these requirements, there is the potential for foreign operators to exploit the liberalized and competitive environment in Singapore by engaging in whipsawing and one-way bypass.
- 3.22 With respect to how these would arise, we would refer the IDA to our comments in (a) above wherein we explain how whipsawing and one-way bypass arises.



- (g) *What would be the impact of technology developments (e.g. Internet telephony) or indirect access methods and least cost routing (e.g. refile or transit) on the effectiveness of the current measures?*
- 3.23 Whilst technological developments (e.g. Internet) and alternatives to the traditional international settlement arrangements exist (e.g. refile, callback), the accounting rate system still applies to a significant volume of international traffic. This is especially so with respect to international traffic originating/terminating on Category II routes.
- 3.24 Despite technological change and the availability of alternative methods of access, there is no compelling evidence which suggests that that this has enabled operators to effectively bypass the traditional international settlement regime to a significant extent. As such, the regulatory measures such as parallel accounting and proportionate return, if implemented and enforced, remain effective safeguards against potential anti-competitive conduct by foreign operators.
- 3.25 We would note that regulators in other jurisdictions such as the United States of America continue to impose regulatory requirements with respect to international settlements such as parallel accounting and proportionate return.