

**PRELIMINARY DECISION ON THE REQUEST BY SINGTEL FOR
EXEMPTION FROM THE DOMINANT LICENSEE OBLIGATIONS WITH
RESPECT TO THE RETAIL INTERNATIONAL TELEPHONE SERVICES
MARKET PURSUANT TO SUB-SECTION 2.5.1 OF THE CODE OF
PRACTICE FOR COMPETITION IN THE PROVISION OF
TELECOMMUNICATIONS SERVICES 2005**

SUBMISSION BY SINGAPORE TELECOMMUNICATIONS LIMITED

1 INTRODUCTION

- 1.1 Singapore Telecommunications Limited (**SingTel**) hereby responds to the Info-communications Development Authority of Singapore's (**IDA**) preliminary decision on the request by SingTel for exemption from the Dominant Licensee obligations with respect to the Retail International Telephone Services market pursuant to sub-section 2.5.1 of the Code of Practice for Competition in the Provision of Telecommunications Services 2005 (**Code**) on 1 September 2006 (**Preliminary Decision**).
- 1.2 In its Preliminary Decision, the IDA has determined that:
 - (a) the continued application of Dominant Licensee regulation under sections 4 and 8 of the Code is no longer necessary in relation to services provided by SingTel in the residential retail ITS market; and
 - (b) the continued application of Dominant Licensee regulation under section 4 of the Code is no longer necessary in relation to services provided by SingTel in the commercial retail ITS market.
- 1.3 SingTel welcomes the Preliminary Decision to completely remove Dominant Licensee regulation from the residential retail ITS market and to partially remove such regulation from the commercial retail ITS market.
- 1.4 While the Preliminary Decision is generally favourable, SingTel has some concerns about the IDA's decision to exclude Internet Telephony (**VoIP**) services from the defined Retail ITS markets and its assessment of, and decision to, continue regulating SingTel in the commercial retail ITS market. In the interests of brevity, SingTel has sought to limit its comments in this submission to addressing these issues.

1.5 This submission is structured as follows:

Section 1 – Introduction

Section 2 – Executive Summary

Section 3 – SingTel’s comments on market definition

Section 4 – SingTel’s comments on the assessment of market power

Section 5 – Conclusion

1.6 Where necessary, SingTel has provided verifiable data in support of the assertions made in this submission, including confidential information.

2 EXECUTIVE SUMMARY

2.1 The key points made by SingTel in this submission are as follows:

- (a) SingTel welcomes the IDA’s preliminary decision to grant SingTel’s request to remove all Dominant Licensee obligations in relation to services provided in the residential retail ITS market. SingTel also supports the IDA’s view that the continued application of Dominant Licensee regulation under sections 4 of the Code is no longer necessary in the commercial retail ITS market.
- (b) Notwithstanding SingTel’s broad support for the Preliminary Decision, SingTel has certain concerns about the IDA’s approach to market definition and the manner in which it has assessed market power in the commercial retail ITS market.
- (c) SingTel supports the IDA’s finding that international services accessed via mobile and ISDN should be included in the Retail ITS markets but also believes that VoIP services should be included.
- (d) VoIP services are a competitive constraint on SingTel’s ability to successfully implement a small but significant non-transitory increase in the price (**SSNIP**) in Retail ITS. In accordance with the principle of technological neutrality, SingTel believes that it is not appropriate to distinguish between VoIP services and other forms of Retail ITS. SingTel’s proposed approach to market definition is consistent with international practice, including recommendations made by the European Commission to national regulatory authorities to include PSTN and VoIP services within the same call market.

SingTel believes that a similar, forward looking approach to market definition should be adopted in Singapore.

- (e) SingTel does not believe it has significant market power in the commercial retail ITS market. SingTel cannot act independently of competitive forces in the commercial retail ITS market by unilaterally restricting output, raising prices, reducing quality or otherwise acting anti-competitively.
 - (f) In SingTel's view, the IDA may have placed undue emphasis on market share in its analysis of the commercial retail ITS market at the expense of other indicia. Market share is only one of several criteria that the IDA needs to consider in assessing competition in markets and high market share is not conclusive proof that a market is not fully competitive.
 - (g) SingTel's market share in the commercial retail ITS market is inconsequential when viewed in light of the other competitive constraints imposed on SingTel in this market. The existence of price competition, high numbers of competitors, low barriers to entry, potential market entry and countervailing buying power from corporate customers is sufficient to negate and impose a competitive constraint on any theoretical market power that SingTel may have in the commercial retail ITS market as a consequence of its market share.
- 2.2 SingTel has provided some confidential information to the IDA to support its position that it cannot act anti-competitively in the commercial retail ITS market.

3 MARKET DEFINITION

General Comments

- 3.1 SingTel generally agrees with the IDA's conclusions on market definition in the residential retail ITS market and the commercial retail ITS market. In particular, SingTel agrees with the IDA's decision to:
- (a) include Retail ITS accessed through mobile and ISDN in the same market as the various other international services accessed through SingTel's PSTN, such as IDD; and
 - (b) accept a single national market for Retail ITS, rather than separate geographic markets based on individuals routes.

- 3.2 SingTel believes that these findings should be confirmed by the IDA in its final decision. SingTel also believes, however, that VoIP services should be included within the IDA's market definition for Retail ITS.
- 3.3 In this section, SingTel submits that:
- (a) VoIP services constitute a reasonable substitute for consumers who require ITS;
 - (b) the inclusion of VoIP calls in the broader Retail ITS market is consistent with regulatory practice in other jurisdictions and the recommendations of the European Commission;
 - (c) the inclusion of VoIP services in the Retail ITS market would be consistent with developments in the marketplace; and
 - (d) SingTel's preferred approach is for VoIP services to be included in the market definition of Retail ITS.

VoIP services are a substitute for Retail ITS and should be included in the IDA's market definition

- 3.4 In addition to the inclusion of mobile and ISDN access, SingTel also believes that VoIP services are a reasonable substitute for other types of Retail ITS and should therefore be included within the IDA's definition of the Retail ITS markets.
- 3.5 While the IDA has accepted that "IP in the middle" services, such as SingTel's v019 service are substitutes for Retail ITS, SingTel understands that the IDA has sought to exclude internet based telephony services such as Skype, and may have also excluded services provided by licensed Internet Telephony providers in Singapore. In its Preliminary Decision, the IDA stated:¹

"Internet Telephony services generally allow End Users to make and receive calls in any domestic and overseas location where broadband internet access is available. IDA is of the view that, while Internet Telephony Services (such as Skype and other web-based VoIP services) may provide a viable alternative to some End Users for international telephony, such services are still nascent and the take-up in Singapore remains insignificant compared to Retail ITS. More importantly, there is little evidence that the ability of End Users to use Internet

¹ IDA, Preliminary Decision, 1 September 2006, paragraph 25.

Telephony services to make international calls has constrained the prices of Retail ITS. IDA also notes that, in spite of the availability of Internet Telephony services, usage of Retail ITS has not decreased as evidenced by the increasing number of total Retail ITS outgoing minutes. Therefore, for the purpose of this proceeding, IDA will not include Internet Telephony services in the same market as Retail ITS”.

- 3.6 While SingTel appreciates that the IDA’s position on this issue may change over time, SingTel believes it would be appropriate for the IDA to reconsider its position as part of its final decision.
- 3.7 SingTel does not believe that Retail ITS carried over private IP networks (such as SingTel’s v019 service) and services carried partially over the public internet should be differentiated. The issue of whether an international call originates on the PSTN or in IP form over a private IP network or broadband connection is not material from a demand-side perspective. The issue is whether the service under examination can constrain a ‘hypothetical monopolist’ from profitability raising prices above competitive levels. SingTel believes that VoIP services do impose a competitive constraint on SingTel and as such should be included in the Retail ITS market definitions.
- 3.8 As early as 2004, the IDA had recognised the significant use of Internet-based forms of ITS:

“The Internet and other IP-based networks are increasingly being used for providing communication services in combination with and as alternatives to the circuit or public switched telephone networks (PSTN). IP-based networks present new opportunities of delivering innovative multimedia applications and telecommunication services to End Users, with voice as just one of the applications.”²

- 3.9 In 2005, the IDA proceeded to licence Internet Telephony providers. To-date, up to twenty-three (23) Services-based Operators are licensed to offer Internet Telephony services. Internet Telephony licensees have also obtained numbers from the IDA to provide VoIP services.

² IDA public consultation on the Policy Framework for IP Telephony and Electronic Numbering in Singapore, 21 September 2004.

- 3.10 With improvements in the quality of the public internet and the introduction of more advanced IP standards which allow packet prioritisation for voice, the quality of the public internet has increased and the supply of voice services over the internet has become more feasible. For market definition purposes, it no longer remains appropriate to distinguish between VoIP services and the Retail ITS offered through mobile-access, ISDN-access and other modes used to-date. In many instances, the end-user will not know the precise manner in which a call is delivered to its final destination.
- 3.11 Similarly, the move towards IP based networks has resulted in calls taking IP form at an earlier stage of the call delivery process. This is particularly the case in corporate environments, where IP based systems are being deployed to reduce costs and to replace legacy systems. VoIP services now provide an alternative means of providing international services and have already been deployed extensively in the corporate sector. Frost & Sullivan, a consultancy, has observed:³
- (a) Singapore is one of the leading markets for IP telephony in the Asia Pacific region and revenues generated from IP telephony was expected to exceed the PBX segment in 2005;
 - (b) demand generated in the Singapore IP telephony voice equipment market is mainly generated from multi-national corporations, government agencies and educational institutions; and
 - (c) corporations with Greenfield sites and multi-site environments are keen adopters of IP-centric PBX due to the ease of installation and its ability to share applications access to multiple sites.
- 3.12 It would be consistent with the realities of the marketplace to include VoIP services within the definitions for the Retail ITS markets.
- 3.13 Such an approach would also be consistent with international best practice. The European Commission has encouraged National Regulatory Authorities of member-states to define the voice services markets to include both PSTN and VoIP:⁴

³ Frost & Sullivan, *Strategic Analysis of the Asia Pacific Enterprise Telephony Markets, Market Engineering Research for the Singaporean Enterprise Telephony Market 2000-2010*, 2005.

⁴ European Commission, *Communications from the Commission to the Council, the European Parliament, the European Economic and Social Committee of the Regions: European Electronic Regulation and Markets 2005*, 11th Report, 20 February 2006, page 9.

“The Commission supports a light regulatory touch and welcomes the fact that a number of NRAs have taken a forward-looking stance, which reflects the Commission approach, on regulatory treatment of VoIP. The Commission has agreed with a number of NRAs that VoIP is part of the calls market, and has expressed a preference for light-touch regulation” (our emphasis).

- 3.14 Several European regulators already define voice markets to include VoIP services. The German telecommunications regulator, BNetzA, has adopted a broad market definition:⁵

“BNetzA’s VoIP concept - with the important exception of pure peer-to-peer services - encompasses all VoIP services regardless of whether they are provided by the retail customer’s broadband infrastructure operator itself or by independent companies with no access to or control over the infrastructure, and regardless of whether any software needs to be installed prior to the availability of the service. Put differently, BNetzA makes no distinction between managed and non-managed VoIP services”.

- 3.15 A similar approach has recently been adopted in France. In December 2004, the French regulator, the Autorité de régulation des télécommunications (ART), had initially concluded that VoIP services should not be included in the fixed-telephony market. However, on 17 February 2005, the Competition Bureau directed that the ART should re-examine the market definitions issues relating to VoIP services. The Competition Bureau was of the view that VoIP services are evolving as a substitute to PSTN services and that on the basis of the forwarding approach to market definition required under the EU regulatory framework, should be included within the same market as PSTN. The French regulator has subsequently revised its decision:⁶

“ARCEP has considered the observations of the Conseil de la concurrence and operators and modified the delimitation of the market as established in December 2004. As a result, services used primarily to access the telephone network, for both the residential and professional markets, are now considered as access to the public telephone network. All telephone calls are included in the same market, including “voice on IP” (VoIP)” (our emphasis).

⁵ European Commission, Case DE/2005/0306 to DE/2005/0311: Access to the public telephone network at a fixed location and publicly available telephone services provided at a fixed location – Comments pursuant to Article 7(3) of Directive 2002/21/EC, 21 December 2005, page 3.

⁶ ARCEP, Press Release: Market analysis for fixed telephony, 15 June 2005.

- 3.16 SingTel believes that it would be appropriate for the IDA to adopt a similar, forward looking approach to market definition for Singapore. It would be appropriate to include all VoIP service offerings within the definition of Retail ITS markets. In addition to the inclusion of VoIP offerings from SingTel and StarHub, the service offerings of the 23 Internet Telephony providers licensed to provide Internet-Based Voice and Data Services should be included, as well as those made available by entities such as Skype.⁷
- 3.17 VoIP services are readily available to consumers throughout Singapore. Singapore has one of the highest household broadband penetrations rates in the world⁸, at close to 60%⁹, and the overall broadband penetration rate is likely to be much higher in the context of business subscribers.
- 3.18 While VoIP services provided over a broadband connection are most common amongst residential subscribers, they are also used to some extent by commercial subscribers for international services. More importantly though, commercial subscribers have the benefit of accessing international services through private IP based networks. The Australian Competition and Consumer Commission (ACCC) has stated:¹⁰
- “corporate customers are driving growth in private network services, which are increasingly used as a substitute for switched voice services”.*
- 3.19 Just as there are strong arguments for including mobile and ISDN based access in the markets for Retail ITS, SingTel submits that a similar argument can be made for the inclusion of VoIP services. The end use and functionality of VoIP services are similar to the other services included in the Retail ITS markets. A SSNIP in relation to Retail ITS is likely to cause end-users to switch to VoIP services, thereby defeating any benefit accruing to the ‘hypothetical monopolist’ as a consequence of the SSNIP.
- 3.20 Finally, SingTel believes that the usage of Retail ITS can increase together with increases in VoIP services. In its Preliminary Decision, the IDA appears to assume that take-up of VoIP services must increase at the expense of Retail ITS services to be considered as a substitute. SingTel considers that such an outcome is unlikely to eventuate. The more likely outcome is that increased usage of Retail ITS and VoIP services will occur in tandem. This is confirmed

⁷ IDA, Telecoms Licensing System. Number of licensees as at 28 September 2006.

⁸ Point Topic, *World Broadband Statistics: Q1 2006*, June 2006, page 15.

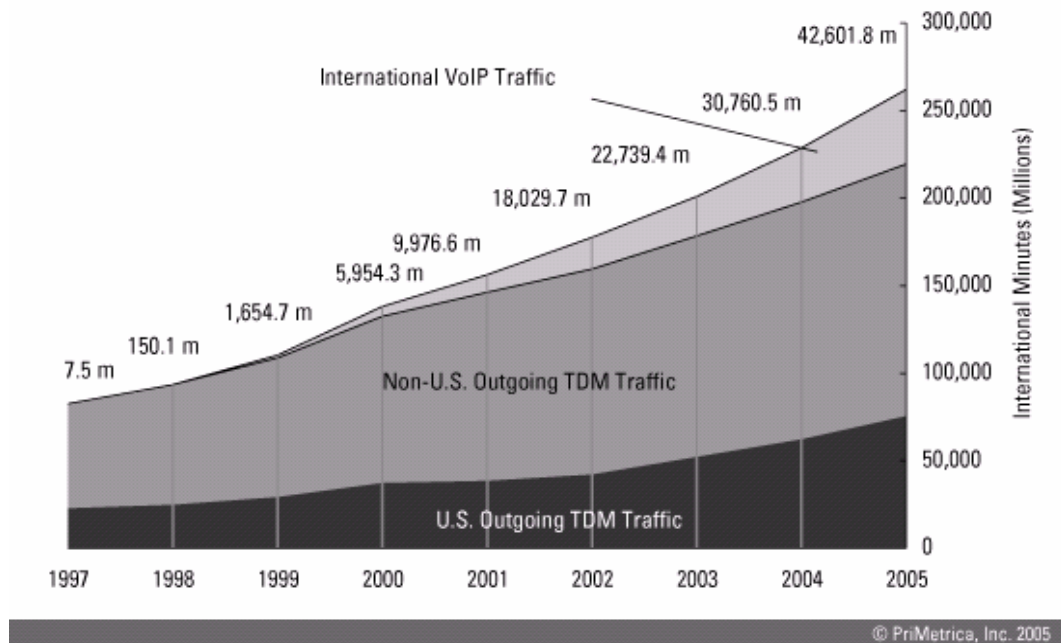
⁹ IDA, *Statistics on Telecom Services for 2006 (Jul - Dec)*, as at 29 September 2006.

¹⁰ ACCC, *Competition in the corporate customer segment of the telecommunications industry: January-December 2005*, May 2005, page 22.

by international data. The TeleGeography table in Figure 1 below suggests that both traditional forms of ITS and VoIP services have increased progressively over time.

- 3.21 The issue therefore is not whether an increase in VoIP services will result in a decrease in the usage of Retail ITS. This is irrelevant. The issue is whether a SSNIP in relation to the price of Retail ITS will result in consumers switching to a VoIP based service.

Figure 1 - International VoIP and Switched Traffic Growth, 1997-2005



- 3.22 On this basis, SingTel's submits that the IDA should re-consider its Preliminary Decision and accept VoIP services as substitutes for traditional international services, such as IDD. SingTel's preferred approach is for VoIP services to be included in the market definition of Retail ITS and requests that such an approach be adopted by the IDA in its final decision.

4 SINGTEL'S COMMENTS ON THE IDA'S ASSESSMENT OF MARKET POWER IN THE COMMERCIAL RETAIL ITS MARKET

General Comments

- 4.1 SingTel supports the IDA's decision that the residential retail ITS market is effectively competitive and that Dominant Licensee can be removed in its entirety.¹¹
- 4.2 SingTel also welcomes the IDA's comments on the competitiveness of the commercial ITS market, including its finding that there are low entry barriers, diverse service offerings and high countervailing buying power from corporate customers.¹²
- 4.3 While SingTel agrees with the IDA that the continued application of section 4 of the Code is no longer necessary, SingTel is concerned about the IDA's decision to continue Dominant Licensee regulation under section 8 of the Code in relation to the commercial retail ITS market.
- 4.4 In this section, SingTel submits that:
- (a) the commercial retail ITS market is subject to effective competition – SingTel is unable to act independently of its competitors in the commercial retail ITS market – SingTel is a price taker rather than a price setter;
 - (b) in SingTel's view, the IDA may have placed too much emphasis on market share data at the expense of other important criteria, such as low barriers to entry, evidence of price competition and countervailing buying power from corporate customers, which would negate the existence of market power; and
 - (c) SingTel's market share is irrelevant when the state of the market is viewed in its entirety – various other competitive constraints in the commercial retail ITS market prevent SingTel from engaging in anti-competitive conduct and are sufficient to negate any theoretical market power that SingTel may have due to its market share.

¹¹ IDA, Preliminary Decision, 1 September 2005, paragraph 59.

¹² Ibid, paragraph 60.

IDA's treatment of market share data in the commercial retail ITS market

- 4.5 In its Preliminary Decision, the IDA concluded that SingTel has 60% market share in the commercial retail ITS market.¹³ The IDA has used this finding as the primary basis for its decision to retain the prohibitions against the abuse of dominant position under section 8 of the Code on SingTel.¹⁴
- 4.6 Notwithstanding the IDA's view in relation to SingTel's market share, SingTel considers that the commercial retail ITS market is fully competitive. The premise for this simple – SingTel is not able to act independently of its competitors in the commercial retail ITS market.
- 4.7 SingTel is unable to unilaterally restrict output, raise prices, reduce quality or otherwise act in the commercial retail ITS market without losing business to its competitors. This is the hallmark of an effectively competitive market and is supported by the market evidence. SingTel does not possess significant market power in the commercial retail ITS market. Market forces rather than regulation are therefore sufficient.
- 4.8 SingTel believes that the IDA may have placed too much emphasis on market share indicia at the expense of other factors which show that the market is competitive. In its Preliminary Decision, the IDA notes that there was no evidence of prior anti-competitive conduct by SingTel in the Retail ITS markets.¹⁵ The analysis shows that SingTel does not have the ability to engage in anti-competitive conduct, regardless the level of market share. In SingTel's view, the IDA has not been able to establish a sufficient evidentiary basis for the continued imposition on Dominant Licensee regulation on SingTel under section 8 of the Code.
- 4.9 The evidence, in fact, shows that SingTel cannot act independently of its competitors in the commercial retail ITS market. This fact persists regardless the level of market share SingTel has in the commercial Retail ITS markets.
- 4.10 Market share is simply one of several criteria that the IDA must consider when it assesses competition in the market. The IDA has stated that market shares in excess of 40% lead to a presumption of market power:¹⁶

¹³ IDA, Preliminary Decision, 1 September 2006, paragraph 34.

¹⁴ Ibid, paragraphs 60 and 61.

¹⁵ Ibid, paragraph 60.

¹⁶ IDA, Preliminary Decision, 1 September 2006, paragraph 35.

“IDA will generally make an initial presumption that a Dominant Licensee that has a market share in excess of 40 percent has SMP. However, while market share provides a useful starting point for the assessment of market power, IDA will not impose an absolute maximum market share above which it will conclusively presume that a Dominant Licensee has SMP. Rather, this presumption may be overcome by evidence that demonstrates that the Licensee, in fact, is subject to effective competition”.

- 4.11 As the IDA itself acknowledges, however, market share is not conclusive proof of the existence of significant market power. A presumption of significant market power arising from high market share can be defeated if other factors show that effective competition exists in the relevant market. A similar approach has been adopted by the Singapore Competition Commission its guidelines on abuses of dominant position.¹⁷
- 4.12 SingTel is concerned that the IDA may have overlooked (or paid insufficient regard to) other evidence suggesting that SingTel lacks significant market power in the commercial retail ITS market. While the IDA has recognised the existence of various competitive constraints in its Preliminary Decision, it has not, in SingTel’s view, properly applied these factors in its analysis of the commercial retail ITS market. In its Preliminary Decision, the IDA stated:

“Although SingTel continues to have a relatively high market share, the market is characterised by low entry barriers, diverse range of close substitutes and high countervailing buying power. IDA also notes that, three years after IDA’s 2003 ITS Decision...there is no evidence that SingTel has engaged in anti-competitive conduct in the Commercial Retail ITS market”.

- 4.13 The Preliminary Decision contains considerable commentary on the competitiveness of retail international services in Singapore. Most of the IDA’s commentary does not actually distinguish between the residential and commercial retail ITS markets, suggesting that the only differentiator between the residential retail ITS market and the commercial retail ITS market is SingTel’s market share.
- 4.14 SingTel submits that the following factors support the view that the commercial retail ITS market is fully competitive and negate the presumption that SingTel has market power due to its market share. SingTel submits that these factors should be properly taken into account by the IDA in the final

¹⁷ Competition Commission of Singapore, *Guideline on the section 47 prohibition 2005*, December 2005, paragraph 3.7.

decision and that all Dominant Licensee regulation should be removed in the commercial retail ITS market:

Market Concentration

- 4.15 The commercial retail ITS market is subject to competition from various well established and resourced entities, including StarHub, Media Ring, Macquarie Corp, MobileOne, MCI Worldcom, Pacific Internet, AT&T, British Telecom, Equant, Zone Telecom and many others that are listed in the SingTel's original request for exemption from the Dominant Licensee obligations¹⁸.
- 4.16 In addition, the move towards managed solutions for corporate customers has also resulted in SingTel competing with system integrators, such as IBM, Cisco and Hewlett-Packard, which provide technology and some associated connectivity services over private IP based networks.
- 4.17 SingTel's competitors have successfully taken commercial customers away from SingTel over the last few years. This includes multinational corporations (MNCs) in the technology, hospitality and broadcasting industries. This suggests that competition in the commercial retail ITS market is intense and imposes a competitive constraint on SingTel's ability to raise prices above competitive levels.
- 4.18 SingTel has set out confidential information about lost bids for international telephone services in Confidential Attachment 1.

Countervailing buying power

- 4.19 In its Preliminary Decision, the IDA acknowledges that the large number of MNCs and local enterprises in Singapore are likely to exert countervailing buying power in their dealings with telecommunications licensees.¹⁹
- 4.20 This finding is consistent with conclusions of regulators in other countries. The ACCC has stated:²⁰

“Corporate customers have considerable access to information in soliciting provision of telecommunications services from suppliers. This includes the use of external consultants or knowledge employees to benchmark prices and find other ways to improve outcomes for the

¹⁸ See Non-Confidential Annexes 1 and 4.

¹⁹ IDA, Preliminary Decision, 1 September 2006, paragraph 46.

²⁰ ACCC, *Competition in the corporation customer segment of telecommunications markets: July-December 2003*, June 2004, page 26.

corporation. Corporate customers are sophisticated buyers of services and represent a large revenue opportunity for carriers. These customers are able to negotiate specific contracts with complicated allocations of risk between themselves and supplying carriers”.

4.21 One of the most critical characteristics of business and government consumers that shape the supply of services into this market is the typically high level of expenditure on international voice services by MNCs and corporate customers. The prospect for significant revenue streams from corporate customers justifies infrastructure based investment by other licensees and gives rise to wide-spread competition. Further, as MNCs are competing themselves in competitive markets, they demand international services that represent good value for money – balancing low cost with product differentiation. This pushes down the price of telecommunications services and forces SingTel to be a price taker, rather than price setter.

4.22 In many instances, the price paid for Retail ITS by commercial subscribers is likely to be lower than that paid by residential subscribers. This is because commercial subscribers are able to extract considerable discounts from operators in order to win their business.

4.23 To illustrate, corporate customers usually call for bids or tenders, or require providers to submit a proposal to cover their telecommunication requirements, including Retail ITS. The ACCC has observed:

“Procurement of services generally occurs through tender and multi -stage bidding processes. ... it is evident that prices offered to the corporate customer segment are, on average, considerably below rates offered to residential customers.”

4.24 SingTel has lost numerous bids for Retail ITS called by corporate customers; these corporate customers have chosen to use the Retail ITS offered by competitors. Similarly, corporate customers like hotels and other corporate users - who are heavy users of Retail ITS – are the subject of intense competition between Retail ITS providers. We set out in Confidential Attachment 2 examples of customers that have churned to Retail ITS competitors when their contracts with SingTel expired.

4.25 The existence of countervailing buying power imposes a competitive constraint on SingTel and prevents pricing above competitive levels. While the IDA has acknowledged the existence of countervailing power in the Preliminary Decision, SingTel believes that the significance of countervailing

power is such that it completely negates any theoretical market power that SingTel may have a consequence of having market share in the commercial retail ITS market – SingTel is not capable of engaging in anti-competitive conduct when it cannot reasonably control pricing in the market. It is a price taker, not a price setter.

Other evidence of competition

- 4.26 SingTel is subject to extensive competition from multiple competitors in the commercial retail ITS market, as evidenced by the competitors listed above and in our request for exemption from the Dominant Licensee obligations.
- 4.27 The existence of competitive service offerings and a multiple of different pricing structures suggests the existence of a developed and entrenched competitive market. Product differentiation and different pricing models are the hallmarks of a fully competitive market. In response to competition, SingTel has also offered promotions to corporate customers.
- 4.28 Further, since the full liberalisation of the Singapore telecommunications sector, SingTel's operating revenues and collection rates from the provision of Retail ITS to all customers have dropped dramatically:
- (a) SingTel's operating revenues from international telephony services for the 2000/2001 financial year, just 1 year into full liberalisation, had declined 26.8% due to competitive pressures on international calling rates;²¹
 - (b) in the 5 years since full liberalisation, SingTel's operating revenues from international telephony services had declined by approximately 45 per cent with a compounded annual decline rate of 14%;²²
 - (c) 2 years prior to full liberalisation, SingTel's operating revenue from international telephone services constituted 41% of its total operating revenue,²³ while in the September 2005 quarter that figure had dropped to only 14%²⁴. The latter saw a decline of 7% over the same period in the previous year.²⁵

²¹ SingTel, *Annual Report*, 2000/2001, page 2.

²² SingTel Financial Results, FYs 00/01 to 04/05.

²³ SingTel, *Annual Report*, FY 97/98.

²⁴ SingTel, *Management Discussion and Analysis of Unaudited Financial Condition, Results of Operations and Cash Flows for the First Quarter ended 30 June 2005*, 2005, page 16.

²⁵ Ibid.

- (d) SingTel's average IDD call collection rate has also fallen dramatically since the introduction of competition. This suggests that SingTel is subject to intense competition from its numerous rivals and that the Retail ITS market is fully competitive.

4.29 These developments have occurred notwithstanding the significant rise of international call traffic over recent years. The fact that these declines continue to occur in light of increasing demand for Retail ITS shows that SingTel does not possess significant market power in the commercial Retail ITS market.

No prior anti-competitive conduct

4.30 SingTel has not acted anti-competitively in the commercial retail ITS market. Nor is there any risk of anti-competitive conduct in the future, as competition will prevent the occurrence of such conduct.

4.31 Intense competition, low barriers to entry and countervailing buying power from commercial customers prevents SingTel from engaging in anti-competitive conduct in the commercial retail ITS market. SingTel is unable to unilaterally restrict output, raise prices, reduce quality or otherwise act independently of competitive market forces.

Potential competition and actual market entry

4.32 The IDA has recognised that barriers to entry are very low²⁶ and that successful new entry has occurred.²⁷ Where barriers are low, competitors can enter the market reasonably quickly and 'cherry pick' business from SingTel and its competitors.

4.33 The risk of potential competition imposes an additional competitive constraint on SingTel and prevents SingTel from acting anti-competitively in the commercial retail ITS market. SingTel considers the threat of potential market entry adds another considerable constraint on SingTel's ability to act anti-competitively and acts to negate any market power that SingTel may theoretically have as a consequence of its market share.

²⁶ IDA, *Preliminary Submission*, 1 September 2006, paragraph 40.

²⁷ *Ibid*, paragraph 51.

5 CONCLUSION

- 5.1 In conclusion, SingTel welcomes the IDA's Preliminary Decision. SingTel agrees with the IDA's decision to remove all Dominant Licensee regulation in respect of international services supplied by SingTel in the residential retail ITS market. SingTel also welcomes the IDA's decision to remove regulation of SingTel's activities under section 4 of the Code in the commercial retail ITS market.
- 5.2 SingTel supports the IDA's finding that mobile and ISDN originated IDD calls are substitutes for other international services in the Retail ITS markets but also believes that VoIP services should be included within these market definitions. The inclusion of VoIP services in the definition of the Retail ITS markets is consistent with international practice and the realities of the marketplace
- 5.3 The IDA's finding in relation to SingTel's market share in the commercial retail ITS market does not automatically mean that there is potential for SingTel to act anti-competitively. SingTel is subject to competitive pressure in the commercial retail ITS market and will not be able to profitably sustain prices about competitive levels or engage in others type of anti-competitive conduct, regardless of its market share in the commercial retail ITS market.
- 5.4 SingTel is subject to intense competition in the commercial retail ITS market from various competitors, including significant price competition and product differentiation. Barriers to entry in the commercial retail ITS market are very low and SingTel and its competitors face risks of further market entry. SingTel also faces significant countervailing buying power from end-users in the commercial retail ITS market. When these competitive constraints are viewed together, it not is possible for SingTel to engage in anti-competitive conduct in the commercial retail ITS market, regardless of any market share it may have.
- 5.5 On this basis, SingTel's requests that the IDA remove **all** Dominant Licensee regulation that currently applies to SingTel in respect of the residential and commercial retail ITS markets in its final decision.