



StarHub Ltd
(Reg No. 199802208C)
51 Cuppage Road
#07-00 StarHub Centre
Singapore 229469
Tel: (65) 6825 5000
Fax: (65) 6721 5002

19 May 2006

Mr Andrew Haire
Assistant Director-General (Telecoms)
Infocomm Development Authority of Singapore
8 Temasek Boulevard
#14-00 Suntec Tower Three
Singapore 038988

Fax : 6211 2116

Dear Mr Haire

**PUBLIC CONSULTATION ON REQUEST BY SINGAPORE TELECOMMUNICATIONS LIMITED
FOR EXEMPTION FROM 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
TELECOMMUNICATION SERVICE 2005**

We refer to the above public consultation which was issued by IDA on 19 April 2006. StarHub is pleased to submit our comments on the consultation.

Please feel free to contact the undersigned should there be any queries on our submission.

Yours sincerely
For and on behalf of
StarHub Ltd

A handwritten signature in black ink, appearing to read "Tim Goodchild".

Tim Goodchild
Head (Regulatory)

**PUBLIC CONSULTATION ON REQUEST BY
SINGAPORE TELECOMMUNICATIONS
LIMITED FOR EXEMPTION FROM 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 TELECOMMUNICATION
SERVICES 2005**

**Submission by the StarHub Group to the Info-
communications Development Authority of Singapore**

19 May 2006

Contact Details :	StarHub Ltd 51 Cuppage Road #07-00 StarHub Centre Singapore 229469 Phone +65 6825 5000 Fax +65 6721 5004 Tim Goodchild Email timothy@starhub.com
--------------------------	--

A. Statement of Interest

- 1.1 StarHub Ltd is a Facilities Based Operator ("FBO") in Singapore, having been awarded a licence to provide public basic telecommunication services ("PBTS") by the Telecommunications Authority of Singapore ("TAS") (the predecessor to IDA) on 5 May 1998.
- 1.2 StarHub Mobile Pte Ltd is a wholly-owned subsidiary of StarHub Ltd. StarHub Mobile Pte Ltd was issued a licence to provide public cellular mobile telephone services ("PCMTS") by the TAS on 5 May 1998. StarHub launched its commercial PBTS and PCMTS services on 1 April 2000.
- 1.3 StarHub acquired CyberWay (now StarHub Internet Pte Ltd) for the provision of Public Internet Access Services in Singapore on 21 January 1999.
- 1.4 In July 2002, StarHub completed a merger with Singapore Cable Vision to form StarHub Cable Vision Ltd ("SCV"). SCV holds a FBO licence and offers broadband and cable TV services.
- 1.5 StarHub Online Pte Ltd is a wholly-owned subsidiary of StarHub Ltd. StarHub Online Pte Ltd was issued with a licence to provide Public Internet Access Services in Singapore on 22 February 2005.
- 1.6 This submission represents the views of the StarHub group of companies, namely, StarHub Ltd, StarHub Mobile Pte Ltd, StarHub Internet Pte Ltd, StarHub Online Pte Ltd and StarHub Cable Vision Ltd.

B. Detailed Comments

1 Introduction

StarHub appreciates the opportunity to comment on the request by Singapore Telecommunications Ltd ("SingTel") for exemption from dominant licensee obligations with respect to the retail international telephone service ("ITS") market ("Exemption Request").

StarHub submits that there has been little or no change in the ITS market since IDA's release of its Explanatory Memorandum ("Initial Decision") to SingTel's Request for Exemption from Dominant Licensee Obligations With Respect to the International Telephone Services Market dated 12 November 2003 ("Initial Request"). Therefore, the concerns highlighted in the Initial Decision remain valid.

StarHub submits that SingTel remains dominant in the ITS market. Further, as identified in Paragraph 26 of IDA's Initial Decision, "as a vertically integrated service provider, there remains potential for SingTel to leverage its significant market power in other retail and "upstream" input markets to compete unfairly".

SingTel should therefore not be exempted from further Dominant Licensee obligations as :

- a) SingTel still controls the major upstream facilities necessary for the provision of ITS;
- b) SingTel is the dominant provider of end user access services (eg DELs and ISDN);
- c) As a vertically integrated service provider, SingTel has the potential to act anti-competitively in the ITS market;
- d) The competitive landscape has not changed significantly since IDA's Initial Decision; and
- e) It is by no means clear that SingTel faces significant and sustainable competition in the ITS market.

2 IDA's Initial Decision

In its Initial Decision, IDA had raised concerns that :

- a) SingTel retains significant market control for several "upstream" inputs that are essential to provide Retail ITS services such as direct access to end-users and access to cable landing stations;
- b) SingTel is able to provide end-users with a bundle of products, including Direct Exchange Lines ("DELs"), leased lines, broadband access and international telephony services; and

- c) SingTel's market share in Retail ITS Market remains in excess of 60%.

StarHub further notes that SingTel itself had highlighted these points in its Exemption Request. However, we note that except for item (c), SingTel had failed to provide any substantial or verifiable data or evidence that it no longer retains market control of "upstream" inputs or that bundling is no longer a concern.

StarHub submits that SingTel continues to retain control over such "upstream" facilities and that such control provides SingTel with a significant advantage over other operators providing ITS.

Further, SingTel's dominance in DELs, leased lines, ISDN lines, broadband access and international telephony services, when taken together, also provides SingTel with significant bundling opportunities which can be detrimental to competition in Singapore.

3 Market Participants and Market Share

SingTel claims that it is subject to competition from many FBOs and SBOs in the market. However, StarHub would submit that despite the numbers quoted by SingTel in its Exemption Request, there is still no effective competition in the ITS market.

StarHub notes that details on market share and market computation that SingTel has provided in support of its Exemption Request have been kept confidential. This clearly makes it difficult for respondents to verify the accuracy of SingTel's information; or to comment on the relevance or computation methodology of market shares.

However, we would highlight that :

- a) SingTel's ITS traffic is increasing. We would note that Page 21 of SingTel's "Management Discussion and Analysis of Financial Condition, Results of Operations and Cash Flows for the Fourth Quarter and Year Ended 31 March 2006" reports that SingTel's International telephone outgoing minutes (excluding Malaysia) rose from 217m minutes in 1st Quarter 2005 to 248m minutes in 1st Quarter 2006. This is an increase of more than 14%.
- b) In the same report, SingTel further states that "*on a sequential quarter basis, International Telephone revenue was stable*".
- c) Finally, StarHub has good reason to believe that SingTel's market share is between 40% and 50%. Please refer to the Confidential Annex.

The fact that its ITS revenue is stable, that its traffic is increasing, and that its market share is above 40% all suggest the absence of effective constraints on SingTel's dominance in the ITS market.

StarHub would therefore urge IDA to carry out an independent, comprehensive study to establish the accuracy and relevance of the information provided by SingTel.

4 Barriers to Usage

StarHub submits that SingTel retains significant advantage over its competitors by virtue of its dominance in end user access services like DEL and ISDN.

4.1 Pre-registration

Singapore subscribes to an open access regime in which end users must "pre-register" their telephone lines with the ITS provider before they are able to use the services of such ITS provider.

However, it is typical that an end user that subscribes to SingTel's residential DEL service will already have his telephone number automatically "pre-registered" for SingTel's IDD services ("Direct IDD"). In contrast, if the same end user wants to use the IDD services of another IDD service provider, he will need to take the additional step of "pre-registering" his SingTel telephone number with that provider before he is able to access its IDD services ("Indirect IDD").

StarHub submits that this is a significant barrier to end users.

Based on StarHub's experience, end users are more likely to use the IDD services of the access line provider i.e. a SingTel DEL customer is more likely to use SingTel's IDD services than that of another ITS provider.

StarHub has provided statistics in the Confidential Annex to illustrate this point.

It can be seen from the statistics provided that, despite the fact that the IDD market has been liberalized for more than 6 years, the number of end users who sign up for Indirect IDD services or actively use such services is low. The additional need to pre-register is clearly a significant barrier to usage of Indirect IDD services. This gives SingTel, which is dominant in the retail access line market, a significant advantage over its competitors in the ITS market.

StarHub would note that SingTel had acquired such advantage due to its historical monopoly in the Singapore telecommunications market.

4.2 Control of DEL Market

Following from the above point, SingTel's dominance in the end user access line market (for example DEL, ISDN, etc) also gives SingTel a significant advantage in the ITS market. StarHub has provided its estimate of SingTel's market share in the DEL market in the Confidential Annex.

StarHub would note that in IDA's Initial Decision, IDA had itself raised the concern that

"... SingTel retains significant market control for several "upstream" inputs that are essential to provide Retail ITS services such as direct access to End Users..."

StarHub further notes that this is one of the reasons which IDA cited for not granting a full exemption to SingTel in its Initial Decision.

There has been no change in regulatory policy since IDA's Initial Decision in 2003 and therefore the above concern remains relevant.

SingTel's dominance in the DEL market, and the fact that most, if not all, SingTel and SingTel Mobile customers have their telephone lines automatically "pre-activated" for access to SingTel's IDD services, clearly provides SingTel with an advantage over competing operators.

StarHub has also provided data in the Confidential Annex which compares Direct IDD usage and Indirect IDD usage. It can be seen that Direct IDD attracts higher usage compared with Indirect IDD.

StarHub submits that this is due to "pre-activation" of IDD services and to the fact that end users are more likely to use the IDD services of its access provider. SingTel's dominance in the DEL market therefore provides it with a significant competitive advantage.

Finally, SingTel's former monopoly position also affords it much residual advantage as SingTel continues to benefit from customer inertia as well as end user familiarity with SingTel's "001" IDD code.

StarHub therefore submits that SingTel still enjoys significant advantage in the IDD market due to its position as the dominant provider of end user access services.

4.3 SingTel is the dominant provider of ISDN IDD services

In paragraph 5.22 of SingTel's Exemption Request, SingTel claims that ISDN IDD services are reasonable substitutes for fixed IDD and mobile IDD. StarHub disagrees with this claim. The ISDN market is targeted at corporate customers and therefore cannot be considered a substitute for fixed IDD and mobile IDD.

Therefore for obvious reasons, ISDN IDD services cannot be considered part of the retail ITS market but should rightly be considered part of the commercial ITS market. Further, SingTel is the dominant provider of ISDN services in Singapore and therefore is the dominant provider of ISDN IDD services.

As such, StarHub submits that ISDN IDD is clearly not fully competitive and that SingTel should continue to be designated as dominant in ISDN IDD services. SingTel's control of the facilities essential for the provision of ISDN IDD services and significant market power ("SMP") in ISDN services makes it a dominant provider of ISDN IDD services.

5 Substitute Services

StarHub submits that the mobile market is much narrower than SingTel claims. Mobile IDD and VoIP/IP Telephony are not substitute services to ITS.

5.1 Mobile IDD is not a Substitute Service

SingTel claims that mobile IDD should be considered a substitute to ITS. StarHub does not agree with this proposition.

StarHub would note that while the IDD rates made from mobile phones may be the same as that for DEL services, mobile users are subject to airtime charges payable to the mobile operators. Therefore on a per-call basis, IDD calls from mobile phones can be more expensive than that made from DELs. StarHub submits that this additional cost acts as a barrier to usage.

StarHub would draw IDA's attention to a TeleGeography report which states that

"Mobile subscribers now account for 59 percent of worldwide phone lines. However, they only account for 24 percent of outgoing international calls..." (emphasis added) (Executive Summary, TeleGeography 2006)

In paragraph 5.32 of SingTel's Exemption Request, SingTel states that

"There is strong evidence of substitutability between fixed and mobile services in the provision of international telephony services. This is demonstrated by the rate of mobile penetration."

StarHub submits that this argument is flawed for reasons stated above. High mobile penetration does not indicate that international calls from mobile lines are equally high, or that mobile IDD is therefore a substitute ITS.

StarHub therefore submits that access to IDD service via mobile services cannot be considered a substitute service.

5.2 VoIP/IP Telephony Services ("VoIP Services") have not yet reached critical mass in Singapore

SingTel also claims that VoIP/IP Telephony services should be considered a substitute to ITS. While StarHub recognizes the potential of VoIP Services, StarHub submits that such services have not yet reached a critical mass in Singapore. At best, VoIP/IP Telephony

caters to a niche market. It is therefore premature for SingTel to claim that VoIP Services are already a substitute service to ITS.

IDA conducted its auction for IP Telephony numbering resources (specifically Level 3 numbers) in September 2005. However, to date, many of the operators who successfully bid for such numbering resources have yet to commence commercial operations.

While VoIP Services have much potential, the penetration of VoIP services today is not significant and certainly cannot be considered a substitute to ITS.

StarHub would further note that global experience has shown that in markets where VoIP operators have successfully penetrated, incumbents have launched their own VoIP Services in a bid to retain market share (for example British Telecom in the United Kingdom).

In the Executive Summary of the TeleGeography 2006 report, TeleGeography states that :

"While voice-over-IP has the potential to revolutionize the long distance industry, change has, thus far, remained evolutionary..... Irrespective of the means of transport, the vast majority of international traffic is originated and terminated on the switched telephone network, and international carriers provide the bridge between domestic and networks worldwide."

It is clear that SingTel as the dominant carrier in Singapore has a distinct advantage as it will have already have established relationships with other international carriers.

TeleGeography continues to support this conclusion as follows :

"The rapid growth of voice over broadband (VoBB) in Japan, the U.S., and Europe holds the promise of revolutionizing this market. However, the all-IP future remains a distant dream While VoBB providers connect to their own customers via a broadband connection, most of their subscribers' calls are made to "off-net" telephone numbers on the PSTN."

The above supports the conclusion that VoIP Services are not yet a competitive threat to IDD services and that SingTel retains the advantage since most calls still terminate on traditional PSTN networks.

StarHub would note that the "free or cheaper international calls" can only be enjoyed if the user calls another VoIP/IP Telephony user. As long as the call terminates on the traditional PSTN, cost savings are not likely to be significant. Further, as IDA will appreciate, the proportion of VoIP/IP Telephony users is still significantly lower compared with the number of PSTN users. Therefore the proportion of calls terminating on the PSTN will be much higher, translating into little or no cost savings for the caller.

The fact that the overwhelming majority of Singaporeans make their IDD calls via standard PSTN lines shows that customers do not see VoIP as a substitute for PSTN IDD services.

VoIP/IP Telephony services will more likely be taken up as a second voice service rather than as a primary service.

Also, while broadband penetration may encourage take up of VoIP/IP Telephony services, such take up is likely to lag significantly behind as these services require additional subscriptions, software and equipment.

Therefore, StarHub again submits that VoIP/IP Telephony cannot be considered a substitute service to traditional IDD calls.

6 SingTel's Market Share is above 40%

SingTel claims that its market share has fallen to below 40% and therefore no longer has SMP. However, StarHub disagrees and believes that SingTel's market share is still between 40% and 50%. Please refer to the Confidential Annex. However, as such information is reported regularly by service providers to IDA, StarHub believes that IDA is in the best position to determine accurately the actual market share controlled by SingTel.

StarHub further submits that given the level of vertical integration within SingTel, even if SingTel's market share is truly below 40%, there is still considerable potential for anti-competitive conduct by SingTel due to its ability to leverage on its SMP in other markets and its control of "upstream" facilities.

StarHub therefore submits that the guideline for using 40% market share as a presumption of SMP must be taken carefully, in this context, given SingTel's unique position of its historical monopoly and control of infrastructure.

7 Control of Facilities Essential for providing ITS

Today, SingTel still controls the essential "upstream" facilities for the provision of ITS. This includes the control over cable landing stations, access to end users as well as SingTel's ownership of much of the cable capacity landing in Singapore. This gives SingTel a distinct advantage over other operators in terms of cost, access to such facilities, and fault management and recovery etc.

StarHub notes that paragraph 4.9 of Ofcom's "Notice under Section 155(1) of the Enterprise Act" issued on 30 June 2005, Ofcom stated that

"The combination of market power in the markets for the provision of access and backhaul network services, and vertical integration into related downstream markets, provides BT with the ability and the incentive to engage in discriminatory behaviour".

StarHub submits that the situation above is entirely similar to that in Singapore and that SingTel's level of vertical integration and control over such facilities provides SingTel with a major incentive to act anti-competitively.

8 SingTel's Non-Confidential Annex 1

In SingTel's Non-confidential Annex 1, StarHub is listed as offering International Toll-free Services (ITFS), Corporate Switched Telecommunications Network (CSTN) and Voice VPN. This is incorrect. StarHub does not offer these services.

StarHub would urge IDA to verify the accuracy of other information provided by SingTel.

C. Conclusion

StarHub believes that there has been little change in the market situation from IDA's Initial Decision. SingTel's continued control over essential "upstream" facilities and access to end users provides SingTel with a distinct advantage over its competitors.

SingTel itself reports that its ITS traffic is growing and its revenue is stable. We also believe that SingTel's share of the ITS market is above 40%.

StarHub disagrees that VoIP, mobile JDD and even calling card and callback services can be considered as effective substitutes for ITS given the different dialing patterns, need for pre-registration and higher costs. StarHub therefore believes that the ITS market should be more closely defined.

The level of vertical integration within SingTel also provides SingTel with significant advantage over its competitors in the ITS market.

Finally, StarHub believes that the exemption from ex-ante regulations already granted by IDA provides SingTel with sufficient flexibility to compete and respond to changes in the ITS market, and that ex-post regulation must be retained to ensure that SingTel does not act anti-competitively.

In its assessment of SingTel's Exemption Request, StarHub would urge IDA to assess the effect of SingTel dominance in the telecoms market, control over key infrastructure and level of vertical integration on competition in Singapore. StarHub believes that SingTel has the ability to lower its prices so as to drive out competition in the ITS market.

StarHub submits that based on such assessment, SingTel's Exemption Request should be denied.