

**M1'S RESPONSE TO IDA'S CONSULTATION PAPER ON  
REQUEST BY SINGAPORE TELECOMMUNICATIONS LIMITED FOR  
EXEMPTION FROM DOMINANT LICENSEE OBLIGATIONS WITH RESPECT  
TO THE INTERNATIONAL CAPACITY SERVICES MARKET PURSUANT TO  
SECTION 2.6.1 OF THE CODE OF PRACTICE FOR COMPETITION IN THE  
PROVISION OF TELECOMMUNICATIONS SERVICES**

**15 April 2004**

This paper is prepared in response to IDA's consultation document dated 4 Mar 2004 and represents M1's views on the subject matter. Unless otherwise noted, M1 makes no representation or warranty, expressed or implied, as to the accuracy of the information and data contained in this paper nor the suitability of the said information or data for any particular purpose otherwise than as stated above. M1 or any party associated with this paper or its content assumes no liability for any loss or damage resulting from the use or misuse of any information contained herein or any errors or omissions and shall not be held responsible for the validity of the information contained in any reference noted herein nor the misuse of information nor any adverse effects from use of any stated materials presented herein or the reliance thereon.

# **M1'S RESPONSE TO IDA'S CONSULTATION PAPER ON REQUEST BY SINGAPORE TELECOMMUNICATIONS LIMITED FOR EXEMPTION FROM DOMINANT LICENSEE OBLIGATIONS WITH RESPECT TO THE INTERNATIONAL CAPACITY SERVICES MARKET PURSUANT TO SECTION 2.6.1 OF THE CODE OF PRACTICE FOR COMPETITION IN THE PROVISION OF TELECOMMUNICATIONS SERVICES**

## **Introduction**

1. M1 welcomes the opportunity to submit our views and comments to IDA for its consideration in its decision on Singapore Telecommunications Limited's ("SingTel") request for exemption from Dominant Licensee Obligations with respect to the International Capacity Services ("ICS") Market.
2. M1 has been providing cellular mobile services to the Singapore market since 1 April 1997 and in August 2000, we launched our international telephone services. In April 2001, M1 also obtained the FBO Licence for the Provision of 3G Mobile Communication System and Services and the 3G Spectrum Right.
3. As an international service provider, we want to highlight our concerns primarily with regard to submarine cable capacity and domestic backhaul services. Although there has been an increase in submarine cable capacity and decline in prices since market liberalisation, our view is that the full conditions for effective and sustainable competition in this market as a whole are not yet present. There is still limited access/capacity/connectivity by route and price declines have not been uniform across all routes, indicating the different levels of competition and dominance for different routes. These are the result of inherent market failure, which in turn means that SingTel's dominant power cannot be effectively checked by market forces if the existing regulatory requirements are lifted.

## **Market Dynamics Affecting Competitiveness**

4. To date, for **Category II routes**<sup>1</sup>, where there exists a monopoly carrier or where there is limited deregulation, these destinations can only be reached via legacy consortia cable systems. Historically, these cable systems were planned, installed, owned and operated by a group of incumbent operators who formed the consortia to finance the installation of the cable systems. Although new cable systems were installed in the past years, the ownership was still restricted to these incumbent operators who operate the cables as extensions of their domestic monopolies. This group of companies shares the cable capacity and typically maintains very high prices.
5. The reality is that even though there are private cable systems or IPLCs for these destinations, operators are effectively required to use the legacy consortia systems, as the national incumbents would prefer to utilise their investments in these cables in bilateral traffic exchange. As such, operators will have to purchase capacity either directly or indirectly, from the legacy consortia cable systems. The national incumbents would then specify that operators "match" their circuits in the legacy consortia cable systems in Singapore.

---

<sup>1</sup> IDA, Guidelines on International Settlement Arrangements relating to the Provision of International Telecommunication Services.

6. Though the Singapore telecommunications market is fully liberalised since 2000, only SingTel has ownership access and control over the legacy consortia cable systems such as APCN and SEA-ME-WE3. This is because consortia cables are generally restrictive in contractual terms and the assignment of ownership of an interest in a cable is not available to any 3<sup>rd</sup> parties. Cable consortia systems such as APCN2 established after market liberalisation are not available for Category II destinations. As such, operators have no alternative but to purchase the “matched” capacity from SingTel to deliver international voice traffic into Category II destinations.
7. SingTel also has significant cost advantages as a consortium member, giving it the competitive advantage in bilateral traffic exchange and carrying the return (inbound) traffic. This is especially true for Category II routes where the smaller traffic volume gives minimal incentive for overseas operators to split traffic between the various operators in Singapore. The continuing relationship between SingTel and the corresponding incumbents, cemented by not only past bilateral relationships, but also the continuing cable consortia relationship, generally restricts operators’ ability to conclude competitive bilateral deals. The scale effect of carrying this additional traffic reinforces SingTel’s cost advantage over other carriers.

#### **Availability of Substitutes**

8. From the substitutability point of view, hubbing is an option available to operators, but it cannot be a total substitute for direct cable connection. Transit arrangements cannot provide the security of long-term supply. Hubbed traffic streams are also exposed to additional risk such as increased points of technical failure as compared to the direct connection to overseas destinations, which can also serve as transit points in the event of failure on another route. This is especially important for risk management and business contingency planning. Moreover, hubbing or alternative transit routes to Category II destinations are also limited.

#### **Distortion in Pricing**

9. An evaluation of the pricing levels and trends for submarine cable capacity would also reveal the effects of market failure in Category II destinations. Logically, the pricing for submarine cable capacity should correspond to the cost of production required to install the cable between the two destinations. Hence, one would expect the prices for cable capacity between Singapore and distant countries such as USA and UK to cost more than connections between Singapore and Asian countries such as Thailand, Vietnam and Indonesia.
10. However, contrary to this, the prices for submarine cable capacity to Asian countries are much higher than to distant countries. Such a situation occurs due to market failure where the different extent of market liberalisation and competition along each route affects the pricing of submarine cable capacity in Singapore to these destinations.

#### **Domestic Backhaul Services**

11. The provision of submarine cable capacity is an ‘end-to-end’ service. Having procured the cable capacity, operators would still require a fair means to land, manage and backhaul the capacity from the cable landing stations to their domestic network infrastructure for connectivity to customer premises and point of presence in Singapore. Hence, the rollout of submarine cable capacity is inevitably tied to the provision of domestic backhaul and connectivity services in Singapore.

12. To provide domestic backhaul, access to cable landing stations and co-location is essential. Today, SingTel still owns and controls most of the cable landing stations in Singapore. Given Singapore's size constraint, it will not likely be feasible to build more cable landing stations nor are there many suitable locations available. With regulatory support, there is now supply of alternative backhaul at cable landing stations, but continued availability and effectiveness will be dependent on continued assured access to the cable landing stations on fair terms and regulatory safeguards against anti-competitive practices by the dominant licensee. It is, therefore, important that IDA continue to impose Dominant licensee obligations on SingTel for connection services (regulated charges and to provide services on an unbundled basis) to safeguard against anti-competitive abuse and to promote competition in backhaul services.
13. SingTel currently remains as the dominant provider of PSTN service with a significant market share of **99.7%** despite market liberalisation in Apr 2003<sup>2</sup>. The domestic backhaul service requires access to domestic connectivity as an input. This has been a bottleneck to operators who are dependent on SingTel for access to this domestic connectivity. Also, SingTel's legacy infrastructure built under the former monopolistic environment and its ubiquitous connectivity in domestic fixed-line market confers very favourable cost structure to SingTel's ability to backhaul, which gives SingTel a significant competitive advantage over its competitors.
14. Hence, M1 submits that SingTel is still dominant in the domestic backhaul market due to its:
- Control of essential bottleneck facilities and infrastructure such as cable landing stations that are sufficiently costly or difficult to replicate; and
  - Control of access to the domestic fixed-line infrastructure required for connectivity to customer premises and points of presence in Singapore

It is important that all terms and conditions for the provision of domestic backhaul service must continued to be regulated by IDA.

15. In conclusion, M1 submits that SingTel still possess market dominance in the provision of submarine cable capacity, particularly along Category II routes, and in the provision of domestic backhaul services. To adopt the approach of ex-post regulation will mean that the detrimental results of anti-competitive behaviour will be allowed to take place before IDA can investigate the matter and take action. This is not desirable for the industry as a whole. The continued application of the Dominant Licensee obligations on SingTel is necessary to protect end users and to preserve effective competition amongst Licensees.

---

<sup>2</sup> SingTel Annual Report 2002/2003, p40.