



CONSULTATION PAPER ON THE CONSOLIDATION INVOLVING PACIFIC INTERNET LIMITED AND CONNECT HOLDINGS LIMITED

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

12 March 2007

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. DETAILED COMMENTS

1 INTRODUCTION

StarHub welcomes the opportunity to comment on the proposed consolidation involving Pacific Internet Limited (“PacNet”) and Connect Holdings Limited (“CHL”). While StarHub does not oppose the consolidation between PacNet and CHL, we are concerned over CHL’s control over the various submarine cable systems, given the importance of international connectivity to Singapore.

2 CONCERNS CHL’S CONTROL OVER SUBMARINE CABLE SYSTEMS

CHL has a controlling interest in the East Asia Crossing (“EAC”) and C2C Submarine Cable Systems. While PacNet and CHL have submitted an analysis by CRA International that shows that there are competitive and consumer benefits to the proposed Consolidation, we would highlight some areas we believe are of importance in assessing the Consolidation.

a) CHL has full control over EAC and C2C

Section 3.2 of the CRA report states that StarHub is a vertically-integrated owner of cables landing in Singapore, as well as a provider of downstream services. We would highlight that, except for APCN2, StarHub does not have ownership of any cable systems. Rather, StarHub acquires IRUs and capacity on cable systems (including EAC).

We would also highlight that IRU holders are not accorded the same rights as cable owners. In the case of EAC and C2C, these systems are fully controlled by CHL. This accords CHL which substantial powers over pricing and other commercial decisions, which investors and IRU holders would not have. The extent to which IRU holders can lower prices and therefore provide a *“full pass-through of the efficiency gains to consumers”* is therefore limited, as IRU holders are actually obtaining an upstream input from cable owners like CHL/EAC/C2C.

StarHub therefore believes that IDA must view CHL in the light of its full control over the EAC and C2C cable systems.

b) ANC/PacNet is likely to charge lower imputed prices to its own downstream operations

Section 4 of the CRA report states that ANC/PacNet *“could and likely would charge lower imputed prices to its own downstream operations”*. While StarHub notes that neither CHL, ANC or PacNet are dominant licensees in the Singapore telecommunications market, the control by CHL over EAC and C2C does give rise to concerns over preferential treatment (particularly in pricing) to PacNet. The CRA report itself highlights that non-vertically integrated downstream competitors would face higher input costs. We believe that this can have an adverse effect on the market. As IDA is aware, at least 80% of internet-users in Singapore access sites that are hosted overseas. In order to ensure that user experience is optimum, internet service providers must ensure that they have sufficient capacity on submarine cables. The cost of

maintaining sufficient capacity on such cables is one of the major cost components faced by an internet service provider.

CHL's ability to influence pricing, and charge its downstream affiliates at lower prices, can therefore give rise to competitive concerns. Specifically, CHL has the ability to provide PacNet with preferential pricing. This ability stems from the fact that CHL owns the cable systems and PacNet will only be using a small proportion of available capacity on these cables.

If PacNet is able to obtain cable capacity at much lower prices than other internet service providers, this would clearly make it difficult for other providers to compete with PacNet, to the detriment of competition in Singapore.

c) Submarine Cable Systems should be assessed based on route and not the amount of capacity available/lit.

Section 5 of the CRA report analyses the market share of ANC (EAC) and C2C. It concludes that it is unlikely the Consolidation will give rise to any horizontal market aggregation.

StarHub would, respectfully, point out that the importance of a cable system is not just the amount of available or lit capacity. As with all international cables, the route and destination also determines the importance of the cable system. Many service providers obtain capacity on a variety of cables systems although many cables share similar destinations. The main reason for doing so is to establish diversity and redundancy.

StarHub submits that EAC is an important cable system, used by service providers as an alternative system. Therefore, even if EAC were to raise its prices, service providers may have no choice but to pay the higher prices so as to be able to maintain sufficient redundancy in their networks. The potential for CHL to raise prices to increase the competitive benefits to its downstream affiliates is therefore cause for concern.

3. CONDITIONS FOR APPROVAL OF CONSOLIDATION

Given the control of key telecommunications infrastructure by CHL, in the event that IDA approves the proposed consolidation, StarHub submits that IDA should impose conditions listed in Section 10.7.3 of the Telecom Competition Code 2005, specifically Sections 10.7.3.1, 10.7.3.2 and 10.7.3.3.

StarHub believes that such safeguards are necessary to preserve the level of competition in the telecommunications market, and to ensure that the Consolidation does not give rise to anti-competitive conduct.

B. Conclusion

StarHub does not oppose the proposed consolidation between PacNet and CHL, and we believe that increased competition can bring about greater consumer benefit, as well as innovative services.

However, we are concerned that CHLs control over key submarine cable systems can have an anti-competitive effect, as CHL/ANC will be in a position to provide PacNet will preferential pricing, to the detriment of the overall market.

In the event that IDA approves this consolidation, StarHub would urge IDA to impose conditions to safeguard the market against anti-competitive conduct. StarHub is grateful for the opportunity to comment on this issue.