

RELATIONSHIP OF TERMINAL EQUIPMENT AND SERVICE PROVISION MARKETS IN SINGAPORE

1. BACKGROUND

- 1.1 Prior to the 1 April 2000 full market liberalisation, IDA required its licensed public telecommunication service providers¹ to set up a separate company if they wish to engage in the sale of telecommunication terminal equipment. This requirement was deemed necessary to ensure that the service operator deals with its equipment subsidiary at an arms-length to pre-empt possible anti-competitive behaviour. Moreover, given that the terminal equipment market and the service provision market were at very different stages of competition as the former market was liberalised much earlier², de-linking ensures that competition in either market is not impeded in any way.
- 1.2 Service providers and equipment dealers are also not allowed to enter into arrangements that will adversely affect the development of competitive market forces and restrict the choice of consumers for service providers or equipment. The rationale for this policy is as follows:
- (i) Although service providers may contribute to driving terminal equipment prices down, this has to be weighed against the corresponding costs of restricting consumer choice which may negate the benefits from such reductions.
 - (ii) Due to the high financial costs involved, service providers tend to focus only on a few models. These “subsidised” models are subsequently more aggressively promoted by dealers at the expense of other models. The dealers may also become less willing to bring in other models of equipment, thus limiting the

¹ This was with the exception of the public trunked radio service operators.

² The terminal equipment market was liberalised in 1986. In January of that year, the sale of Private Automated Branch Exchanges (PABX), Key Telephone Systems (KTS) and multi-line systems was liberalised. By July 1989, the equipment market was fully liberalised to encompass all telephone instruments including mobile telephones, pagers and teleprinters.

choices available. More importantly, such arrangements between service providers and equipment dealers /manufacturers prevent consumers from "mixing and matching" the desired equipment model with the consumer's preferred service package or provider. Thus, the consumers will face constraints at two levels: (i) at the equipment level; and (ii) at the service provider level which is not in the consumer interests.

- (iii) From the industry perspective, the service provision market and the terminal equipment market should be independent. Dealers that are excessively dependent on service providers may become very vulnerable. Service providers should also compete on the basis of innovative pricing, network and service level standards and customer care and services support. Otherwise, overtime, there will be artificial distortions in the economics and behaviour of the different segments of the telecommunication industry. These distortions can threaten the long-term viability of service providers as well as equipment dealers. Keeping the terminal equipment and service provision market segments separate will safeguard against service providers who unfairly advantage their own equipment subsidiary or associated units.

2 RELAXATION OF SEPARATION POLICY

- 2.1 With the full liberalisation of the telecommunication market from 1 April 2000, while service providers are no longer are required to set up a separate company if they wish to engage in the sale of telecommunication terminal equipment, they will be required to treat all equipment dealers and vendors fairly and non-discriminately from their own equipment dealing units. Licensed public telecommunication service providers will be required to comply fully with the requirements of the Code of Practice for Competition in the Provision of Telecommunication Services.
- 2.2 Implementation-wise, any co-operative scheme by the licensed public telecommunication service providers is to be extended on a non-

exclusive³ and non-discriminatory⁴ basis and all schemes are to be made equally available to all equipment dealers on similar terms and conditions. Further, contractual agreements cannot include any condition that legally binds the equipment dealer exclusively to a service provider and each equipment dealer is to have access to the same information with equal and adequate time to respond.

Note:

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³ The non-exclusive condition prevents any service provider or equipment dealer from concluding agreements that preclude other parties and effectively "locks in" their counterpart.

⁴ Non-discriminatory practice essentially means that no service provider or equipment dealer can enjoy undue preferential treatment or unfair advantage over others. Service providers must ensure that any scheme for their services be made equally available to all equipment dealers on a non-discriminatory basis, that is, subject to similar terms and conditions and providing all equal and adequate time to response.