

**M1'S RESPONSE TO IDA'S CONSULTATION PAPER ON  
DESIGNATION OF SINGAPORE TELECOMMUNICATIONS  
LIMITED'S LOCAL LEASED CIRCUITS AS MANDATORY  
WHOLESALE SERVICE**

**30 June, 2003**

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## **M1'S RESPONSE TO IDA'S CONSULTATION PAPER ON DESIGNATION OF SINGAPORE TELECOMMUNICATIONS LIMITED'S LOCAL LEASED CIRCUITS AS MANDATORY WHOLESALE SERVICE**

- 1 M1 welcomes the opportunity to submit our views and comments to IDA for its consideration in its regulatory decision regarding the designation of Singapore Telecommunications Limited's (SingTel) Local Leased Circuits (LLCs) as mandatory wholesale service.
- 2 M1 has been providing cellular mobile and paging services to the Singapore market since 1 April 1997 and in August 2000, we launched our international telephone services. In April 2001, M1 was also awarded a FBO Licence for the Provision of 3G Mobile Communication System and Services and a 3G Spectrum Right.

### Overall Regulatory Approach

- 3 M1 supports IDA's proposal to designate SingTel's LLCs as a mandatory wholesale service under the Code, given the current state of competition in the LLC market. Today, SingTel remains a dominant incumbent in the leased line market and there are limited alternative suppliers. The introduction of wholesale arrangements for LLCs will encourage greater competition in the LLC market, giving operators the real potential to reduce their costs as well as to compete more effectively in downstream markets, bringing lower prices to end-users.
- 4 However, instead of detailed and prescriptive prices/regulations, M1 recommends that IDA only set the wholesale price ceiling for LLCs, which should be reasonably derived on a cost-oriented basis, and clarify the arrangements for interconnection, access and service levels. Beyond this basic framework, IDA should allow flexibility for further commercial negotiations on prices, provisioning terms and conditions to cater to operator-specific requirements.

### Proposed Pricing Approach

- 5 With regards to the pricing approach, we propose that IDA adopt the "cost-plus" approach as it examines cost and allows for a reasonable rate of return for infrastructure investment. The "retail-minus" or "retail minus avoidable cost" approach would neglect the cost relevance and appropriate cost allocation element in pricing.
- 6 The prevalent existence of discount schemes based on volume or length of contract explains the market demand for pricing incentives which gives LLC suppliers economies of scale and business commitment. As different customer/operator would have bespoke requirements, it is only appropriate that IDA allow flexibility for individual commercial negotiations. But if non-agreement arises due to competition issues, either party should be able to refer the matter to IDA for dispute resolution as per Section 5.5.6 of the Telecom Competition Code.

- 7 M1 also propose the following pricing principles for regulatory oversight and dispute resolution of LLCs and LLC-related charges eg: pipeline, cable, installation, equipment etc.:
- Cost relevance and appropriate cost allocation;
  - Cost minimization for economically efficient use of investment in LLCs;
  - Pricing Transparency; and
  - Non-discriminatory pricing for minimum wholesale service offering.

#### Expand range of LLCs

- 8 Higher bandwidth access is of fundamental importance to development of new information services. To cater for the increased bandwidth demands of 3G, the scope of the proposed mandatory wholesale LLC service should be expanded to include bundled purchases of E1s (ie.  $X^1$  numbers of E1s), and higher bandwidth service links such as E3 & STM-1 LLCs. It is a common market practice across all industries to give pricing incentives for bundled purchases eg: 4 X E1s, 8X E1s etc. due to cost savings in administrative, processing and transaction costs. Hence, IDA should incorporate this consideration in setting the respective price ceilings for LLCs.
- 9 The availability of a wholesale dark fibre offering would also encourage the development and deployment of new applications and services that would not be possible with a limited bandwidth service. Operator use of dark fibre would encourage investment in expansive transmission equipment for carrying higher bandwidth. To ensure the cost-effectiveness of such investments which would catalyse 3G development in Singapore, we would propose that IDA consider re-designating dark fibre as a mandatory wholesale service offering. This will serve to introduce competition into the provision of higher bandwidth access, and in turn, facilitate the delivery of high-speed information age services to consumers.

#### SingTel's Monopoly position in Remote Areas

- 10 M1 would like to highlight that despite market liberalisation, SingTel maintains a monopoly position for the provision of LLCs in remote areas. Its ubiquitous network infrastructure inherited since privatisation from a state-owned enterprise remains a strategic barrier to entry by competitors. To-date, there is no competitive market force to ensure the effective, efficient and reasonable provision of LLCs for remote areas. No countervailing buying power exists to protect customer rights.

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<sup>1</sup> X is a numeric variable greater than 1.

- 11 To self-provide the transmission links using fibre is an expensive alternative for an operator without fixed line infrastructure. The costs would be very high, similar to those of an entrant in the leased lines market, unlike SingTel which enjoys significantly greater economies of scale. Hence it is unlikely that operators could switch to self-provision using fibre if the price of the LLC is raised way above its competitive level. It is then critical that IDA address SingTel's pricing of LLC provision in remote areas to ensure adequate service provision to customer segments in those areas. IDA should also explore means to further develop competition and to ensure that SingTel does not exert monopolistic market control for remote areas.
- 12 In summary, M1 recommends the following regulatory approach for LLCs:
- Designate SingTel's LLCs as mandatory wholesale service
  - Set price ceilings for LLCs to prevent excessively high or exploitative pricing
  - Allow flexibility of commercial negotiations for bespoke requirements within the framework
  - Establish pricing principles for LLCs and LLC-related charges for regulatory oversight and dispute resolution
  - Ensure no monopolistic market control in remote areas
- 13 M1 believes that the proposed approach balances regulatory intervention with the use of market forces to ensure an effectively competitive LLC market in Singapore. This approach also caters for flexibility, innovation and customization for different needs.