



Response by British Telecommunications (BT) to IDA
Consultation Paper on Designation of Singapore
Telecommunications Limited's Local Leased Circuits as
Mandatory Wholesale Service

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EXECUTIVE SUMMARY

After three years of market liberalisation, SingTel still remains the dominant supplier in the market for local leased circuits in Singapore. In view that effective competition in this market is lacking, BT commends the IDA for rising to the challenge in proposing regulatory measures to rectify a less than desirable market structure.

BT notes that should wholesale local leased circuits be mandated under SingTel's RIO, the policy would set a precedent for Asia Pacific. Such a decision would be entirely consistent with the new EU legislative framework for telecom services and would have set the stage for potential EU-Singapore Free Trade negotiations.

Overall, BT supports the IDA's proposed regulatory measures put forth in the consultation paper. The benefits of lowering wholesale local leased circuit prices are not confined to players within the telecom industry but have far reaching and substantial spill-over effects on the entire Singapore economy.

BT would highlight the necessity to formulate any regulatory decision such that it not only refers to price conditions but also other aspects which might restrict competition, e.g. condition that a wholesale product may not be resold. If such issues are not specifically addressed, there may be little or no improvement in the competitive position of other operators.



INTRODUCTION

BT welcomes the opportunity to comment on the IDA's consultation paper on the proposed designation of Singapore Telecom's (SingTel) local leased circuits as a mandatory wholesale service.

BT supports the IDA's proposed approach to regulating SingTel's local leased circuit services put forth in the consultation paper: -

- to designate SingTel's local leased circuits as a mandatory wholesale service under the Code;
- to require SingTel to offer the mandatory wholesale leased circuit services under its Reference Interconnect Offer (RIO) at IDA mandated prices;

The latter, however, needs to be complemented by a condition prohibiting SingTel from imposing any restrictive conditions in its terms and conditions.

BT notes that the IDA's proposed approach is aligned with the Singapore Economic Review Committee's (ERC) ICT Working Group Report, in which one of the recommendations was to "... require the incumbent (SingTel) to provide access to its network infrastructure at government mandated prices ..." BT also notes that this recommendation was made following the ERC ICT Working Group's conclusion that "... it is not economically feasible for another operator to build a duplicate last-mile network..." (p.18 of Report)

COMPETITIVE OVERVIEW

SingTel Dominant Supplier of Local Leased Circuits

BT's parent company, BT plc, wholly owns a subsidiary in Singapore, which is known as BT Services (Singapore) Pte Ltd ("BT Singapore"). A significant proportion of BT Singapore's business involves B-end support for European multi-site corporate customers using BT's international networks who require a domestic connection to their office sites in Singapore.

As a SBO licensee, BT Singapore relies on SingTel and other FBOs for the supply of leased circuit services for transmission and transport. In view that FBOs such as StarHub and WorldCom have only rolled out only limited domestic networks, there remains a high reliance on SingTel for the supply of local leased circuits, with SingTel maintaining a monopoly position for the supply of local leased circuits outside the CBD.

Lack of Effective Competition in the Market for Local Leased Circuits in Singapore – Regulatory Intervention Necessary

Notwithstanding that the CBD is traditionally a hotspot for companies to site their offices, there have been an increasing number of businesses that have relocated and/or expanded to office sites outside the CBD to rationalise business costs. A number of FBOs have also located their carrier data centres outside the CBD.

Local leased circuits are an important element of telecommunication costs to business and a non-competitive market is likely to mean that the prices charged to businesses are higher than they need to be. A requirement on SingTel to make local leased circuits available to competing operators at a wholesale price can be anticipated to result in businesses being able to obtain their telecommunication needs at a reduced price. For reasons of administrative costs, businesses often wish to obtain all of their telecommunication needs from a single supplier. Unless competitive operators are able to obtain local leased circuits at a wholesale price so that they can at least match SingTel's prices, they will remain uncompetitive when seeking to establish a customer base.



In a less than optimal market outcome, regulatory intervention is necessary to dictate conditions that would replicate the outcome of a competitive market. BT notes that the IDA's initiative in proposing regulatory measures to rectify a less than desired outcome in the local leased circuit market in Singapore is a first in Asia Pacific and supports the IDA's proposed designation of SingTel's local leased circuit as a mandatory wholesale to be offered by SingTel under its RIO at IDA mandated prices.

Domino Effect of Lowering Wholesale Local Leased Circuit Prices

Local leased circuits are key telecommunication products for businesses and are also key inputs to a carrier's infrastructure. The OECD has stated that "leased lines form critical building blocks for access to the Internet" – with broadband deployment being a case in point. As such, the effect of lowering prices for SingTel wholesale local leased circuits would almost certainly ignite a chain reaction within the telecom industry with spill-over effects across all sectors of the economy.

Since SingTel is the dominant supplier of local leased circuits, FBO and SBO licensees that rely on SingTel for local leased circuits are likely to see an improvement in their cost base if wholesale prices are lowered. This would allow FBOs and SBOs to price their retail services more competitively and be in a position to compete more effectively with SingTel. This may increase the number of viable supplier choices for end-users. For businesses, this would translate to lower costs of telecom services and consequently lower cost of doing business, thereby enhancing Singapore's competitiveness as a commercial and trading hub.

DEFINITIONAL ISSUES

Appropriate Definition of a Wholesale Service

Wholesale services are essentially those services that a carrier sells to another carrier, whereas retail services are those services that a carrier sells to an end-user customer. The distinction between wholesale and retail services thus lies in the nature of the purchaser. Wholesale services sold to a carrier may be resold, re-branded or modified by the purchasing carrier. The purchasing carrier will then need to engage in its own marketing of the service, provide billing, customer service etc.

A retail service is quite different from a wholesale service, especially as regards the level of selling, marketing, customer service and billing activities, i.e. the classic retailing activities. Thus, a wholesale service (sold in big bulk to competing operators) does not require a lot of selling, little if any marketing, very basic customer service, and untailored billing. In contrast, a retail service may involve the carrier in significantly higher levels of selling and marketing; it is also quite likely that customer service arrangements will be more complex for a retail customer than a wholesale one, and the billing requirements too would be more complex (not least because with a wholesale customer only one bill needs to be sent out per period that covers a large number of potential end-users).

As a matter of principle, competing carriers seeking wholesale local leased circuits from SingTel must be able to compete on a level playing field with SingTel's various lines of business in the retail markets, (e.g. SingNet, SingTel Mobile, etc). Thus, the prices and terms on which wholesale services are obtained would need to be set at a level that would allow the efficient competing operators to at least meet reasonable costs relating to marketing and billing of the services.

Technical and Service Definitions

From figure 1 of IDA's consultation paper illustrating SingTel's single point-to-point connectivity service, the circuit connections at the two ends of the SingTel exchange are the local leased circuits. In the case of SingTel's multi-point to single-point connectivity service shown in figure 2 of IDA's consultation



paper, the local leased circuit would include both the tail and trunk circuits. SingTel should be required to offer all variations of local leased circuits on a wholesale basis under its RIO.

As the demand for wholesale local leased circuit services would be derived from demand generated by end-users of local leased circuit services, the range of wholesale local leased circuit services offered by SingTel should mirror the suite of its retail offering. SingTel's wholesale local leased circuit offer should include the full range of circuit speeds across all distances nationwide, with no restrictions placed on usage and resale.

PRICING ISSUES

Cost-Plus vs. Retail-Minus

Since the cost associated with selling a wholesale service is established to be lower than for a retail service, the price of a wholesale product should generally be below that for an equivalent retail product. At one extreme, it could be a strictly cost-oriented product (cost-plus). At the other it could be a retail-minus price.

To follow the "cost-plus" approach, it would be necessary to have available sufficient detail of the relevant costs. Such costs would include network costs, plus any relevant "wholesaling" costs, such as selling to, providing support to and billing the wholesale customers. In the case of "retail minus" pricing, the methodology is to deduct the costs avoided by not engaging in retail activity from the retail price.

There is no simple way to anticipate the outcome of these differing approaches. Usually, the cost-plus approach would result in a lower price than retail minus. However, this may not be the case if the retail product is priced below cost. Though the wholesale price in retail minus is likely to be lower than under the cost plus approach, it is likely to allow competing carriers to at least cover the costs of retailing, provided that they are at least as efficient as SingTel's subsidiaries in its retailing activities.

An observation made in an independent benchmarking study of retail and wholesale local leased circuit services across major jurisdictions showed that while SingTel's wholesale local leased circuit prices were among the highest in a range of major jurisdictions, its retail prices were conversely one of the lowest, being lower than BT's retail local leased circuit prices in the UK. It is probable that SingTel's wholesale prices actually include retail costs and that this is the reason why SingTel's wholesale prices for local leased circuits are not competitive. If this is true, then application of the retail minus approach would be capable of rectifying the anomaly within a short timeframe and thus would be a step towards the achievement of a more competitive market.

Retail- Minus – Determining an appropriate 'Minus'

As to the proposed discount quantum, BT is of the view that 40% is a substantial rack discount by international standards. However, it is crucial to determine what would be the effective discount. In other words, should SingTel's terms and conditions for the procurement and use of wholesale local leased circuits contain onerous conditions and additional obligations, then the effective discount will be much less than 40% (cross-reference following section on Terms and Conditions).

It is important to establish the service components to which the discounts would apply, i.e. whether or not it would apply to connection, installation, monthly rental charges, fault repair etc. To ensure that competing operators are better off with the wholesale offer, there must be no transfer of charges to other service components such that the total cost to a competing operator in obtaining a wholesale local leased circuit over a contract term delivers little or no additional savings. Thus, the wholesale offer should not, for example, increase connection fees to offset the loss in revenue from monthly rentals.



In establishing an appropriate retail minus discount, it is essential to establish whether SingTel's subsidiaries also incurs their own selling, marketing, customer service and billing costs, in addition to the transfer charge to SingTel for local leased circuits. If they do not, the implication would be that the wholesale product is inappropriately defined (since it recovers retail costs), hence competing operators would be paying too high a price. The inclusion of retail costs also would be implicitly discriminatory, since it would force competing operators to pay for something that they do not need (and do not even benefit from) as these operators then have to incur their own retailing costs while SingTel subsidiaries benefit from SingTel's retail activities.

In order to establish whether the prices of retail products offered by SingTel's subsidiaries are fair, it may be also necessary to take a "multi-period" view, perhaps by looking at future business plans, as well as the recent financial performance for each retail product.

TERMS AND CONDITIONS

As discussed above, discrimination may take many forms including price discrimination or the inclusion of retail costs in the wholesale price.

Specifically, the terms and conditions of SingTel's wholesale local leased circuit offer should not include onerous provisions and burdensome obligations on requesting operators to the extent that it increases a competing operator's retailing and equipment costs and so diminish the commercial benefit to competing operators of a reduced wholesale price. The applicable terms and conditions should include: -

(a) No Restrictions on Eligibility

In accordance with IDA's licensing regime, SingTel's wholesale local leased circuit offer under its RIO should be available to both FBOs and SBO licensees. SBO licensees, by distinction and as a condition of their licence, are not allowed to provide their own transmission but rely on SingTel and other FBOs for transmission and transport. As such, SBO licensees should qualify for SingTel's wholesale local leased circuit service offered under the RIO.

Given SingTel's dominance in the supply of local leased circuits, it would be reasonable to assume that a substantial proportion of SBOs would have obtained such service from SingTel. To minimize disruptions to existing service, it is only prudent to allow SBO licensees to obtain wholesale local leased circuits offered under the SingTel RIO.

(b) Sufficiently Unbundled Wholesale Local Leased Circuits

Wholesale products should be sufficiently unbundled, meaning that competing operators do not have to pay for what they do not need, or cannot use. The inclusion of inappropriate retail costs is an example of insufficient bundling. Another example of an insufficiently unbundled wholesale product may be where competing operators are forced to pay for network elements that are not strictly required, e.g. if the price or handover arrangements imply that operators pick up the circuits from a central point in the SingTel network, when in fact they could pick it up from a point that is closer to the customer.

(c) No Restriction on Usage of Wholesale Local Leased Circuits

In view that wholesale local leased circuits are critical key inputs to a carrier's telecom infrastructure, SingTel should not be allowed to place any restrictions on the usage of such local leased circuits by competing operators. In particular, it is crucial that SingTel does not impose any restriction on the usage and resale of wholesale local leased circuits procured under its RIO as any restriction could potentially constrain a competing operator's ability to develop a true retail offering.



(d) Non-discriminatory Quality of Service (QoS)

SingTel should not be allowed to discriminate between the level of service it offers to its own subsidiaries and competing operators in the provisioning, installation and fault restoration procedures of its wholesale local leased circuit offer. This aspect should be available through a requirement to offer Service Level Agreements (SLAs) to requesting operators.

(e) Enforcement Regime

Penalty clauses should be included in SLAs to compensate the requesting operator in the event SingTel fails to deliver the service according to the contractual delivery date and timescales. Most incumbents in the EU countries are being penalized in this regard through some form of percentage reduction in the monthly circuit rental. There is a wide variance in the percentage reduction relative to the number of days beyond the agreed delivery date. In some cases, the percentage reduction also varies according to circuit speeds. As a matter of principle, requesting operators should receive reasonable compensation based on an estimate of potential revenue lost as a result of the delay.

(f) Migration Terms

To minimize service disruption, the migration terms should not be burdensome to the purchaser and any associated migration cost should be detailed upfront.

CONCLUSION

The proposal to require SingTel to offer local leased circuits as a mandatory wholesale service under its RIO is a significant milestone in telecom regulatory policy in Asia Pacific and appears capable of advancing the competitive regime in Singapore. If established, it would be a first in the region. However, setting the price for SingTel's wholesale local leased circuit services is not sufficient in itself to guarantee success; attention should also be paid to ensure that there are no onerous terms and conditions imposed on purchasers as regards the procurement and use of the service.

As this consultation addresses general issues and sets the framework for IDA's regulatory policy, the IDA may consider it appropriate to follow up with a subsequent consultation focusing on specific issues (e.g. pricing, terms and conditions, etc).