

29 June 2003

Mr Andrew Haire  
Senior Director (Policy & Regulation)  
Infocomm Development Authority of Singapore  
Singapore 038988

Dear Sir,

**DESIGNATION OF SINGTEL'S LOCAL LEASED CIRCUITS ("LLCs") AS MANDATORY WHOLESALE SERVICE:**

We refer to the Authority's discussion paper of 30 May 2003 on the above topic.

2. Equant Pte Ltd ("Equant") appreciates the opportunity to comment on this critical issue, and welcomes the Authority's recognition that *"LLCs are key telecommunications products for business, and that effective competition within this sector can make a positive contribution to the competitiveness of the overall economy."* From an Equant perspective, we see that SingTel's dominance in the LLC market is leading to market distortions, to the detriment of Singapore's overall competitiveness. Equant therefore welcomes the Authority's attention to this issue.

3. Equant's response is divided into three sections: Section One provides background information on Equant and the LLC market in Singapore. Section Two reviews the central issues raised by the Authority, namely: (i) the proposal to mandate wholesale discounts on SingTel's retail LLC charges; and (ii) the proposal to allow collocation in SingTel's local exchange sites. Section Three draws together a conclusion.

**SECTION ONE - BACKGROUND:**

4. Equant Pte Ltd is a licensed SBO, focussing primarily on the provision on IP and managed data services. In order for Equant to provide services to its customers, it is necessary for Equant to connect the customer to its nodes. It is uneconomic for Equant to build out its own circuits (given the cost and time involved, and the frequency with which customers can change suppliers). Equant is therefore dependent on LLCs purchased from FBO licensees.

5. Equant has considerable experience with the LLC market in Singapore, and purchases a large volume of LLCs. The majority of the LLCs purchased by Equant are at speeds of 2Mbit and below, and are in the CBD. A profile of the LLCs purchased by Equant is set out in the confidential annex to this document.

6. In Equant's view, the LLC market in Singapore is not competitive. There are only two suppliers of LLCs in Singapore; SingTel is the only supplier with a ubiquitous network; and SingTel is overwhelmingly dominant in the LLC market<sup>1</sup>. There are no other suppliers in the LLC market, and no other operators have signalled their intention of entering this market.

7. The lack of competition in the LLC market has been acknowledged by the ERC's ICT Working Group, whose recent report concluded that:

- *"it is not economically feasible for another operator to build a duplicate last mile network";*
- *"competition is still lacking in certain market segments due to 'bottleneck' infrastructure";* and therefore
- *"the government could ... require the incumbent [i.e. SingTel] to provide to provide access to its network infrastructure at government-mandated prices".*

8. Based on Equant's international experience, we believe that LLC charges in Singapore are high (and we would note that there have been no significant reductions in SingTel's LLC charges since 2000, unlike SingTel's IPLC charges). Even in the Authority's own study of 13 May 2003, Singapore rates very poorly for LLCs of 2Mbit and below, for distances of 5km. In this range, the Authority's study shows that Singapore is either the most expensive, or the second most expensive, of the countries studied.

9. If no regulatory action is taken in the LLC market, Equant believes that SingTel will continue to levy high LLC charges. As prices for IP and managed data services fall, SingTel's competitors will find themselves in a price squeeze. Competition will suffer, as will Singapore's international competitiveness.

**10. Equant would stress that the problems caused by SingTel's high LLC charges are not limited to FBO licensees. SBO licensees (such as Equant) are dependent on SingTel's LLCs in the same way that FBO licensees are. Therefore any regulatory action that the Authority takes to correct this situation must be open to both SBO and FBO licensees. If the Authority's corrective measures are limited to FBO licensees, this will simply create further distortions in the market.**

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<sup>1</sup> See the attached confidential annex for evidence of this.

**SECTION TWO: CENTRAL ISSUES**

11. In its discussion paper, the Authority has proposed designating SingTel's LLCs as a mandatory wholesale service, requiring SingTel's to make these services available under its RIO for 2-3 years, with mandated discounts. Equant welcomes the Authority's involvement in this issue, and would make the following comments on this proposal.

**Discount Structure:**

12. The Authority's consultation paper proposes using either a "flat" discount or a "tiered" volume-based discount structure for wholesale LLCs, and asks for comment on this. In terms of generating economically efficient outcomes, Equant considers that a tiered discount structure would be superior to a flat discount. A volume-based discount structure would also help to distinguish between "real" operators and end-users who obtain licenses simply to obtain cheaper LLCs.

13. However, it is important to note that a volume-based discount structure would necessitate the Authority having to establish arbitrary (and artificial) break-points for the various discount levels. A tiered discount structure might also allow SingTel to discriminate in favour of its own subsidiaries. A tiered discounting structure would also leave open the question of how wholesale discounts should change in the face of increasing discounts for retail services.

14. Equant therefore believes that a more effective approach would be to establish "price ceilings" for wholesale LLC charges, with SingTel not being able to charge more than the ceiling for each wholesale LLC product. These ceilings could be benchmarked against wholesale LLC charges elsewhere in the world, to ensure Singapore's on-going international competitiveness.

15. The European Commission has already carried out useful work in establishing appropriate price ceilings for wholesale LLCs. Based on a recent paper by the European Commission<sup>2</sup>, Equant would propose the following price ceilings for wholesale LLCs:

<b>Speed</b>	<b>Up to 2km</b>	<b>Up to 5km</b>	<b>Connection Charges</b>
<b>64kbit</b>	\$101	\$118	\$731
<b>2Mbit</b>	\$343	\$591	\$1,297
<b>34Mbit</b>	\$1,826	\$3,513	\$2,202

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<sup>2</sup> See the European Commission's working document "Draft Commission Recommendation on Leased Line Interconnection Prices and on Major Supply Conditions for Wholesale Leased Circuits", 12 February 2003.

16. Equant would stress that any action taken to correct SingTel's LLC charges must also apply to SingTel's grooming charges, which are an integral part of the LLC service. Failure to act on grooming pipe charges would leave unresolved a major area of distortion in the LLC market.

**2-3 Year Term:**

17. Equant believes that it is necessary to review the arrangements for wholesale LLCs every 2-3 years. If this review concludes that effective and sustainable competition exists in the LLC market, Equant agrees that the arrangements for wholesale LLCs should be ended. However, Equant believes that it is inappropriate to simply discontinue wholesale LLCs after 2-3 years.

18. As noted by the ERC, duplication of last-mile infrastructure is uneconomic, and international experience shows that even limited local loop infrastructure takes many years to develop.<sup>3</sup> Equant believes that it is unrealistic to assume that the local loop can be duplicated, and SingTel's dominance in the LLC market can be ended, in just 2-3 years. If the wholesale LLC arrangements were terminated after 2-3 years, without there being effective and sustainable competition in the LLC market, the market would simply return to the current problems.

19. Equant would therefore support the review of wholesale LLC arrangements after 2-3 years, but would not support a "sun-set" provision.

**Mandatory Service Under RIO:**

20. In the Authority's paper it is proposed that the LLC arrangements would be implemented as a wholesale service under SingTel's Reference Interconnect Offer ("RIO"). However, care is needed in implementing this arrangement, given that the LLC issue impacts on both FBO and SBO licensees.

21. Equant notes that when the submarine cable service was brought into SingTel's RIO, it was introduced as an unbundled network service that was only available to FBO operators.<sup>4</sup> This arrangement would not be suitable for the LLC issue, given that the LLC issue impacts on both SBO and FBO licensees. In implementing the wholesale LLC arrangements it is necessary for the arrangements to explicitly recognise that SBO licensees are eligible to procure LLCs at wholesale rates.

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<sup>3</sup> Equant would note the recent FCC study which found that after many years of local loop competition in the US, CLECs still hold less than 14% of all access lines. See: [http://hraunfoss.fcc.gov/edocs\\_public/attachmatch/DOC-235340A1.doc](http://hraunfoss.fcc.gov/edocs_public/attachmatch/DOC-235340A1.doc)

<sup>4</sup> In fact, clause 11.1 of Schedule 4B of SingTel's RIO makes it clear that the schedule will terminate should the requesting licensee no longer be an FBO licensee.

22. One way of achieving this outcome is to include LLCs (and grooming circuits) under the Origination, Termination, and Transit (“OTT”) category of SingTel’s RIO. Domestic LLCs are required primarily for the original and termination of an international service, and so there is a neat conceptual “fit” in the OTT category. As OTT services are not restricted to FBO licensees only, this solution addresses the need for SBO licensees to be able to access wholesale LLCs.

**Associated Issues:**

23. In issuing a determination in regard to the LLC issue, it is important that the Authority takes into account four related issues:

- **Quality of Service:** It is important for the Authority’s determination to specify the quality of service levels that will apply to wholesale LLCs (including the timeframes for LLC installation). If this is not done, there is a risk of SingTel providing wholesale LLCs with a lower quality of service than it does for its own retail LLCs, thereby undermining the services that its competitors can provide. One way of addressing this issue would be for the Authority’s determination to specify that the quality of service for SingTel’s wholesale LLCs shall be no worse than the quality of service for its retail LLCs.
- **Migration:** It is also important for the Authority to specify in its determination that SBO and FBO licensees are free to migrate immediately (at no cost) from their existing LLC contracts to the new wholesale arrangements. If this is not done, SingTel may argue that any new wholesale LLC arrangements can only come into force when existing LLC contracts terminate, thereby defeating the purpose of the Authority’s determination.
- **Resale:** As stated above, Equant believes that duplicate ubiquitous LLC networks in Singapore are unlikely to develop. Therefore, if the Authority wishes to encourage competition in LLC markets, the only way to do this would be to allow FBO and SBO licensees to resell the LLCs they purchase from SingTel. In the absence of such a step, SingTel will continue to be the dominant (and frequently the only) supplier of LLCs in Singapore.
- **Range of Bandwidth:** In its consultation paper, the Authority has asked for comment on the range of bandwidths to be covered by the wholesale LLC arrangements. Equant considers that a full range of LLC speeds, from 9.6kbit through to 155Mbit should be covered by the wholesale LLC arrangements, given that:
  - ⇒ SingTel is dominant in the LLC market, and this dominance is not limited to LLCs of particular speeds;

- ⇒ If arbitrary boundaries are set on the range of LLCs covered by the wholesale arrangements, this will create distortions in the market; and
- ⇒ If high-speed LLCs are excluded from the wholesale LLC arrangements, this will act as a major disincentive for customers to upgrade to higher speed applications.

**Collocation in Local Exchanges:**

24. The Authority has also proposed allowing FBO licensees to collocate equipment in SingTel's local exchanges, thereby allowing FBO licensees to provide their own grooming circuits. While Equant welcomes the Authority's desire to resolve the LLC issue, Equant does not believe that this proposal will be effective in resolving the LLC issue, for the following reasons:

- First, the proposal is limited to FBO licensees only. As such, it does not bring any relief for SBO licensees, who also suffer from SingTel's high LLC charges.
- Second, the collocation proposal does not address the fundamental issues – SingTel's dominance in the LLC market, and SingTel's ability to extract monopoly rents from its competitors through LLC charges. Mandating collocation, and allowing self-provision of grooming circuits, would not address these issues.
- Third, the arrangements to put collocation into place would be complex, particularly given SingTel's plans to close certain local exchanges.

25. Therefore, Equant does not believe that the concept of mandated collocation will be effective in resolving SingTel's high LLC charges.

**SECTION THREE – CONCLUSION**

26. Equant would stress the importance of the LLC issue to Singapore's ongoing international competitiveness. The "bottleneck" nature of SingTel's last-mile network means that serious competition in LLC services is unlikely to develop. And without reductions in LLC charges, the ability of licensees to offer cost-effective international data services will suffer.

27. Equant therefore strongly supports the Authority's proposal to mandate wholesale LLC arrangements (provided that these arrangements are open to both FBO and SBO licensees). Equant sees that the most effective way of setting wholesale LLC charges would be to establish price caps, based on international benchmarks. But if this arrangement is not possible, Equant would support volume-based tiered discounts.

28. Equant would stress again that it is extremely unlikely that ubiquitous duplicate local infrastructure will develop over the next 2-3 years. Equant would therefore propose that a review be carried out in 3 years time, to determine the competitiveness of the LLC market. But Equant would not support an automatic “sunset” provisions in wholesale LLC arrangements. Similarly, Equant would question the usefulness of mandating local exchange collocation, given that this arrangement would not impact on SingTel’s control over the LLC market.

29. On a more general point, Equant would also note that while the Telecommunications Code of Practice for Competition in the Provision of Telecommunications Services (the “Code”) offers a range of protections for retail services, many of these protections are absent for wholesale services. Based on its recent experience, Equant believes that this arrangement leads to an overall weakening in the level of competition in the market. As part of the review of the Code, Equant believes that it will be necessary for the Authority to strengthen the regulatory protections surrounding the purchase and use of wholesale services.

30. Equant is grateful for this opportunity to comment on the LLC issue. Equant is happy to provide any clarification or elaboration on this submission that the Authority may require.

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