

Comments

On

IDA Consultation Paper

**Designation of Singapore Telecommunications Limited's Local
Leased Circuits as Mandatory Wholesale Service**

Pacific Internet Limited



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1 Introduction

1.1 Pacific Internet Limited provides Internet access service and holds a Facilities-Based Operator licence granted by the IDA. We welcome the opportunity to comment on the IDA's proposal to designate SingTel's local leased circuits as a mandatory wholesale service under the SingTel's Reference Interconnect Offer.

2 Assessment of State of Competition in the Local Leased Circuits Market in Singapore

Wholesale Local Leased Circuits Market

2.1 Currently only a limited number of players operate in the wholesale local leased circuit market in Singapore. Three years after the liberalization of the telecommunications market in Singapore, SingTel, the incumbent operator, still operates the most extensive local leased circuits network in Singapore. Upstream local leased circuit prices in Singapore had been found to be relatively higher than local leased circuit prices overseas. The small number of players in the wholesale market and the relatively high wholesale prices in Singapore indicate that competition in the upstream local leased circuits market is less vigorous than desired.

Retail Local Leased Circuits Market

2.2 At the retail level, there are a greater number of local leased circuit players. These are mainly resellers of local leased circuits obtained from SingTel and StarHub.

2.3 An IDA commissioned study showed that the retail pricing of local leased circuits at *certain* bandwidths are comparable to overseas pricing. In the long term, however, the situation of low retail pricing and high wholesale pricing may not be sustainable and end users would eventually be disadvantaged by the lack of rigorous competition in the wholesale local leased circuits market. Eventually, operators who obtain local leased circuits at high wholesale pricing but can only resell them at a small margin, if any, to end users may be squeezed out of the market, leaving end users with no choice but to buy from the local leased circuits operators owners or their affiliates who may possess significant market power. This is a clearly undesirable outcome for competition in the local leased circuits market and for the end users.

3 Designation of SingTel Local Leased Circuits as Mandatory Wholesale Service

3.1 Pacific Internet welcomes the proposal by the IDA to designate local leased circuits as mandatory wholesale service under the SingTel RIO.

3.2 Local leased circuits are regarded as the "last mile" portion of the telecommunications infrastructure. Due to cost and other bottleneck issues, it does not make economic sense for new entrants to a telecommunications market to replicate the last mile infrastructure of the incumbent. We support the proposal by IDA to require the dominant licensee to allow

competing providers to access the last mile at reasonable rates on a non-discriminatory basis under the RIO. We believe that this is a positive step towards promoting greater competition in the local leased circuits market and other markets where there is a bottleneck issue.

3.3 Designating local leased circuits as a mandatory wholesale service would, however, only succeed at promoting greater competition if the wholesale service can be provisioned quickly and that other retail telco services required to make the leased circuits service work are made available to competing providers at a reasonable price. SingTel should also be required to provide a level of service quality comparable to that provided to its retail customers.

3.4 In regard to whether the designation of SingTel local leased circuits would disincentivise investments in alternative networks, we are of the view that without the opportunity to build up economies of scale presented by this arrangement, the risks of such investments would be too high. This would discourage operators from investing in alternative networks, especially given the current depressed economic conditions. It is hence important to ensure that competing providers can access the incumbent's network at a reasonable price on a non-discriminatory basis for a reasonable timeframe to facilitate competition in the local leased circuits market. The same principle should apply to other last mile infrastructure including copper local loops.

4 Scope of Mandatory Wholesale Service

4.1 The scope of the mandatory wholesale service should include 64kbps, 128 kbps, 512 kbps, 2 Mbps, 34 Mbps, 45 Mbps and 155 Mbps. These are common speeds used by the business end users and Internet Access Service Providers for their backbone network connection.

4.2 In addition, the analogue leased circuit service, in particular, the copper end-to-end delivery mode, should also be included as part of the mandatory wholesale service. Analogue leased circuits are a low cost and reliable means of delivering broadband access services to end users especially corporate customers. SingTel is the only provider of analogue leased circuits in Singapore and it is unlikely that there would be future wholesale competition in this segment. Including analogue leased circuits under the RIO would enable corporate end users, especially small and medium businesses, to have access to relatively inexpensive and reliable broadband access services provided by competing service providers.

5 Pricing and Term of Mandatory Wholesale Service

Pricing

5.1 The "retail minus" approach is the preferred pricing methodology. This approach has the advantage of being relatively easy to implement and administer compared to cost based pricing methodologies which involve detailed regulatory scrutiny of cost figures provided by the dominant licensee, leading to likely delays in the initial implementation of the wholesale pricing and also in subsequent reviews of the pricing.

5.2 We would recommend a multiple-tier discount structure based on quantity of local leased circuits purchased. Volume discounts is a common practice in the industry. Setting out the discount at each tier clearly in the RIO would greatly enhance the transparency of volume discount scheme and help to promote fair competition.

5.3 In regard to the magnitude of the discount(s), we are of the view that it should be set at a level that will bring the level of SingTel local leased circuits pricing in line with the level of pricing in overseas countries with a liberalized telecommunication markets. In this regard, the IDA may wish to make reference to information available in international benchmark studies on local leased circuit pricing for setting the discounts and make known to the public the methodology for determining the discounts.

Term

5.4 We are of the view that the proposed 2-3 years term for the mandatory wholesale local leased circuits service is too short given the current market and economic conditions.

5.5 The telecommunications market worldwide has suffered from the global economic downturn. It is expected that the downturn would persist for sometime into the future. The demand for broadband services in the near term is unlikely to pick up sufficiently to achieve the required economies of scale to justify huge capital outlays in the building of last mile infrastructure on a large scale. The capital market currently is highly adverse to funding capital intensive projects in the telecommunications sector, thus making it prohibitive to undertake such investments in the near term.

5.6 It is also expected the existing local leased circuits owners and their retail affiliates would engage in price discounts to retain their existing customers and attract news ones. It would be extremely challenging for competing providers who do not have the financial means, first mover advantage or full range of complementary services to compete effectively and achieve the necessary economies of scale in 2-3 years to justify the business case for building local leased circuits.

5.7 In addition, the provisioning process for the local leased circuits may be drawn out as is the experience overseas due to the requesting licensee's unfamiliarity with the new service, unforeseen operational issues or because the dominant licensee is not incentivised to expedite the process. In addition, there may be a lack of requisite retail services at reasonable pricing from telcos to enable the wholesale local leased circuit service to work. All the above may cause delays of up to one year or more, leaving competing providers with little time to achieve the required economies of scale in 2-3 years.

5.8 We also wish to note that competing providers would encounter many operational obstacles if they choose to roll out their networks. For example, many MDF rooms in buildings do not have sufficient space to accommodate equipment from multiple service providers. In addition, the management of buildings is sometimes reluctant to allow additional service providers to make use of MDF rooms. Also, both private and government landowners are often slow to agree to the digging of roads, if at all, resulting in delays. Certain roads are also congested with pipes and tunnels, making it difficult to accommodate further digging.

5.9 In view of the above, we propose a term of 5-7 years for the mandatory wholesale local leased circuit service.

6 Conclusion

6.1 The designation of local leased circuits as mandatory wholesale service under the RIO to facilitate access to the critical last mile infrastructure is a positive step taken to promote competition in the Singapore telecommunications market. The success of the proposed measure would depend critically on the timely provisioning of the wholesale service and whether sufficient time is given to allow competing providers to achieve economies of scale.