COMMENTS OF BRITISH TELECOMMUNICATIONS TO THE IDA PUBLIC CONSULTATION ON:

(A) REQUEST BY AT&T WORLDWIDE TELECOMMUNICATIONS SERVICES SINGAPORE PTE LTD, AT&T CORP AND SBC COMMUNICATIONS INC FOR EXEMPTION FROM LONG FORM CONSOLIDATION APPLICATION IN RELATION TO THE PROPOSED ACQUISITION OF AT&T CORP BY SBC COMMUNICATIONS INC

Respectfully submitted by:

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I. Executive Summary

BT commends the IDA for being the first National Regulatory Authority in Asia Pacific to consult with the public and industry on the extent to which the proposed AT&T/SBC consolidation could affect competition in its domestic telecommunication markets and more widely. The combination of AT&T's international business and SBC's dominance in the US local special access market deserves thorough analysis on the extent to which the merged AT&T/SBC could leverage SBC's dominance in the US to affect competition in Singapore telecommunication markets and globally.

The US is Singapore's second largest trading partner accounting for 14.5 percent of total exports in 2002. More than 1,300 US companies operate in Singapore and over 300 US companies have based their Asia Pacific headquarters in Singapore[1]. There is also a sizeable base of US and Singapore companies who have established a strong presence in Singapore and the US, respectively. IDA must ensure that its approval of the proposed AT&T/SBC consolidation does not reduce competition for these players, hamper competitiveness of parties trading between these countries and also reduce competition between telecoms service providers.

Further discussion on the Internet Connectivity / Internet Backbone markets is also necessary. AT&T and SBC's combined market positions have potential to threaten the development of IP-to-IP interconnection and hence the rates at which Singapore Internet Backbone Providers peer with Tier-I Internet Backbone Providers. This in turn, would affect the viability and development of downstream markets such as IP telephony.

BT stands ready to assist the IDA in analysing these effects more adequately.

[1] Singapore Economic Development Board, *Singapore – Linking Businesses in the United States to Asia Pacific*, 2004

II. Introduction

BT thanks IDA for the opportunity to provide comments on the Request by AT&T Worldwide Telecommunications Services Singapore Pte Ltd, AT&T Corp and SBC Communications Inc for exemption from Long Form Consolidation Application in relation to the proposed acquisition of AT&T Corp by SBC Communications Inc. ("AT&T/SBC Request").

Section 7.1 of the Advisory Guidelines governing the Consolidation Review Process under Section 10 of the Code of Practice for Competition in the provision of Telecommunication Services 2005 ("Telecom Consolidation Guidelines") states that "IDA recognises that, in some cases, a Consolidation may involve an Applicant that has Significant Market Power in a market that is not subject to IDA regulation, such as a foreign operator that has exclusive or special rights in its home country… in assessing whether the Consolidation is likely to substantially lessen competition, IDA will give full consideration to the ability of the non-licensed entity to use its market position in a manner that would substantially lessen competition in the telecommunications markets subject to IDA's jurisdiction. IDA will also consider the need for, and likely effectiveness of any Conditions, such as the imposition of structural separation or non-discrimination obligations."

The proposed SBC/AT&T merger clearly falls within the terms of Section 7.1 of the Telecom Consolidation Guidelines and we would urge the IDA to take action to limit the anti-competitive effects of the merger in the Singapore telecommunications market. In particular, the IDA should undertake further analysis to determine the ability of the merged AT&T/SBC entity to leverage SBC's dominant position in US local special access services to limit competition in Global Telecommunication Services ("GTS"), Internet Connectivity / Internet Backbone and IP telephony markets in Singapore.

In the spirit of IDA's regulatory principle on proportionate regulation under Section 1.5.4 of the Code of Practice for Competition in the provision of Telecommunication Services 2005 ("Telecoms Competition Code"), in granting any approval to the SBC/AT&T merger under the Consolidation provisions of the Code, IDA may wish to consider subjecting its approval to Conditions pursuant to Section 10.7.3 of the Telecoms Competition Code.

III. Description of the Consolidation

The proposed merger between SBC and AT&T is a merger between the largest Regional Bell Operating Company ("RBOC") in the US (SBC) and the largest provider of GTS in the world (AT&T). More particularly, SBC is the dominant access provider in a vast 13-state region which accounts for about 42.5% of the US population (and 42.8% of US gross state product), covering major economic centres such as Chicago, Houston, Dallas, Detroit and Los Angeles.

In the wake of the SBC/AT&T merger announcement and in part as an expressly admitted reaction to it, Verizon (another RBOC and the dominant local exchange provider in nearly all of the northeastern U.S. from Maine to Virginia) has announced its intention to acquire AT&T's

largest rival in US national voice and data services for business customers and worldwide GTS services for multinational corporations – MCI.

IV. Markets in Singapore in which AT&T and SBC participates

A. Global Telecommunication Services (GTS)

In its recent decision in BT/Infonet, the European Commission concluded that AT&T's current market share for GTS was [30-40%][2], substantially more than the next largest player, MCI.

The provision of GTS is highly dependent on local connectivity. Given GTS' international nature, no GTS provider is in a position to provide its services on the basis of just its own infrastructure. Depending on each customer's particular requirements, GTS providers subcontract to third parties the necessary connectivity component in areas where they lack a network. The local connectivity requirements associated with the provision of GTS amount to a significant part of the total price of GTS. GTS providers therefore need cost-based, non-discriminatory access in the US to efficiently meet the demand from their present and prospective GTS customer base and to compete effectively in the GTS market.

SBC and Verizon together control the lion's share of all US local termination / connectivity markets and GTS providers generally have little choice in access provider for enterprise customers. The US local access component is critical in this respect, especially since many of the world's largest corporations have major operations / facilities in the US. The combination of SBC's local wholesale monopoly with AT&T's power in the retail GTS market will give the combined company an incentive and ability to: -

(i) discriminate in the price and quality of local access products provisioned to third party rivals, and

(ii) distort competition between the merged firm and other GTS providers, effectively diminishing the ability of those rivals to cost-effectively sell innovative solutions to customers.

Following an SBC/AT&T merger, SBC's overriding economic incentives and duty to its shareholders to maximise its profits will lead to discrimination in favour of its own retail GTS affiliate (AT&T) and against rivals in a number of ways, most of which will be relatively difficult to detect or prevent. The AT&T/SBC merger will reduce competition between GTS providers because in the SBC region, local access to GTS customers will be controlled in the vast majority of cases by a bottleneck monopolist with the incentive and ability to discriminate in favour of its downstream affiliate provider of GTS services (AT&T) and against its affiliate's GTS competitors.

[2] Case No. M.3641 of 25.01.2005

1. Ability of post-consolidated AT&T/SBC to leverage SBC's position in the US to affect competition in Singapore for GTS

Any analysis of the potential likelihood for the post-consolidated AT&T/SBC to leverage SBC's dominance in the provision of local special access services is also dependent on the US regulatory framework on local special access. The lack of effective regulation in the US is demonstrated in a recent report by CompTel/ALTs, the leading industry association representing competitive communications providers in the US. The association found that the US lags behind many countries when it comes to implementing policies necessary for sustainable competition in the communications sector. In particular, the US scored particularly badly on access regulation. The press release which is attached at Annex 1, demonstrates the effects that lack of regulation has had on the US communications market.

In comparison, the UK has consistently scored well in the ECTA scorecard for access regulation, as shown in Annex 2. The scores show that regulation in the US has proven less effective in access regulation and in particular, the US does not have the range of wholesale access products available in Europe. Other EU countries have also generally scored better than the US in terms of access regulation. The argument that there are numerous Singapore-licensed carriers providing GTS is irrelevant to the discussion on foreign market power leverage which is really a function of the effectiveness of the foreign market's regulatory framework. Those competing carriers are dependent on US access.

As GTS providers are highly dependent on local special access in the SBC territory, unless the procurement of such US local special access is at least transacted on a non-discriminatory and arms-length basis, the SBC/AT&T consolidation will result in AT&T Singapore having "preferential" local special access in the SBC territories and reduce competition and supplier choice to business consumers in the provision of GTS. The US is Singapore's second largest trading partner – more than 1,300 US-owned companies operate in Singapore and over 300 US companies have based their Asia Pacific headquarters in Singapore[3]. A large number of US trading giants have anchored their operations in Singapore. The list of Singapore companies that have established strong presence in the US is also substantial. IDA's approval of the proposed AT&T/SBC consolidation should be on the proviso that competition in the provision of GTS is not lessened due to the foreclosure of competition to other Singapore-licensed GTS suppliers and limiting GTS supplier choices to this group of Singapore-based US companies and US-based Singapore companies.

V. Global Markets in which the Applicants may have more than 25% market share

A. Internet Connectivity / Internet Backbone Services

The proposed AT&T/SBC consolidation is subject to a Long-Form Consolidation Application under S10.5.1 of the Telecoms Competition Code on the basis that it was deemed a non-horizontal consolidation in which at least one applicant has more than a 25% market share in at least one telecommunications market, whether or not located in Singapore. The AT&T/SBC

[3] Singapore Economic Development Board, *Singapore – Linking Businesses in the United States to Asia Pacific*, 2004

Request submitted that SBC may have a greater than 25% market share in certain telecommunication markets *outside* Singapore but that *all markets served by AT&T and SBC are competitive*, there was no possibility of leveraging any foreign market power to substantially lessen competition in any telecommunication market in Singapore and would not raise any competition concern in any telecommunication market in Singapore.

For Internet Connectivity / Internet Backbone services, the AT&T/SBC Request claimed that its combined market share for North America and Global Internet traffic is well below 25% as at 2004[4]. However, 2005 forward looking calculations of AT&T/SBC combined market shares for Internet Connectivity / Internet Backbone services show that it is above 25%. Although an important barometer for dominance, market shares are only a starting point. The IDA should also take into account those countervailing factors which could contribute to AT&T/SBC's dominance in Internet Connectivity / Internet Backbone services, such as AT&T/SBC's ability to achieve and maintain high market shares over time, the absence of potential competition, relative market share of competitors, the ease with which new entrants might erode that market share, market structure etc.

Once SBC and AT&T are united, SBC has said that its internet backbone business will be merged with that of AT&T. It is consequently questionable which company's peering policies would prevail. The huge end-to-end network capability of AT&T/SBC will substantially reduce its incentives to provide IP-to-IP interconnection on competitive terms to third parties. Furthermore, IDA should also give due consideration to the evolving market structure for Internet Connectivity / Internet Backbone services in light of the proposed MCI/Verizon merger.

BT would submit that IDA should require further information from AT&T/SBC on the Internet Connectivity / Internet Backbone market and would also urge the IDA to explore the analyse the issues and its ramifications in light of both the proposed AT&T/SBC and MCI/Verizon mergers. *[Please see Attachment – Strictly Confidential Information]*

1. Ability of post-consolidated AT&T/SBC to distort the market for Internet Connectivity / Internet Backbone services and substantially lessen competition by engaging in anti-competitive behaviour

Unless safeguards are in place to preserve and promote competition in the provision of Internet Connectivity / Internet Backbone services, the proposed AT&T/SBC merger will have the potential to weaken the position of Singapore Internet Backbone Providers (IBPs) vis-à-vis Tier 1 providers. AT&T is one of the largest IBPs in the world. Combined with SBC's monopoly bottleneck control over US local special access to business customers requiring a high speed connection to the US, the merged AT&T/SBC will have the ability and incentive to discriminate in favour of the Internet backbone operations of their downstream affiliates against their competitors. This situation will be exacerbated if a super top tier of IBPs is allowed to develop, especially since peering and interconnection arrangements are commercially negotiated and there is no national regulatory authority with oversight on these relationships. Consequently, unchecked, the mergers will result in increased transit prices to all other IBPs for access to their dominant networks, as well as the ability and incentive to degrade the quality of interconnection with other providers. The result will be increased costs for smaller Singapore-based Internet

[4] p.5, footnote 5 of the AT&T/SBC Request

backbone and services providers, to the detriment of Singapore Internet users. This outcome poses a potential threat in derailing the IDA's policy agenda for Broadband and IP telephony services in Singapore.

B. IP Telephony Services

Following the IDA's 14 June 2005 announcement on its policy framework for IP Telephony and Electronic Numbering in Singapore and in view that AT&T and SBC are already providing IP telephony services in the US, a discussion on IP telephony in the AT&T/SBC Request would be relevant.

The US telecoms industry anticipates that the merged AT&T/SBC will eventually roll over their traditional telephony products to IP telephony. As SBC is the monopoly telephony provider in its region, this will give the combined AT&T/SBC entity monopoly power over IP telephony in the US. The top 5 US IP telephony providers as at 2004 are: -

Skype	Free VOIP	9,500,000 subscribers
CallWave	Free VOIP	797,000 subscribers
Vonage	Non-facilities VOIP	300,000 subscribers
Cable Vision	Facilities VOIP	115,000 subscribers
Charter	Facilities VOIP	31,000 subscribers

The industry predicts that: -

- Estimated 1 million paid VOIP subscribers by end 2004
- Estimated 17.5million subscribers by 2008
- 52% of current subscribers use VOIP as a primary line[5]
- 35% subscribers are residential
- Estimated residential VOIP market will increase at a compound annual growth rate of 116% for the next 5 years[6]

The IDA is urged to note and monitor the merged AT&T/SBC's market position for IP telephony in the US.

[5] Yankee Group, News Release, *The Yankee Group expects the consumer local VOIP industry to grow more than 100 times its 2003 size*, 30 Aug 2004

[6] *Roaming the Home*, by Dan O Shea Telephony, 8 Nov 2004

VI. Conclusion and Recommendation

SBC's control to bottleneck US local special access services – a critical input in the provision of GTS, should not be underestimated in the assessment for a merged AT&T/SBC to leverage SBC's market power to lessen and foreclose competition for GTS in the Singapore telecommunication market.

Further discussion on the Internet Connectivity / Internet Backbone markets is necessary. Future development of AT&T and SBC's commercial offering and market position for IP telephony in the US should also be monitored.

In proportion to the extent that the proposed AT&T/SBC merger could substantially lessen competition in Singapore telecommunication markets the IDA should, in granting its approval to the proposed AT&T/SBC consolidation, consider imposing conditions under Section 10.7.3 of the Telecoms Competition Code to promote competition and ensure a level playing field in Singapore telecommunication markets.

- End -

ANNEX 1

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June 2, 2005

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U.S. Telecommunications Regulatory Environment Criticized in New Report

CompTel/ALTS Releases Report Indicating Negative Impact on U.S. Businesses and Consumers of FCC Implementation of the 1996 Act

WASHINGTON, DC – May 31, 2005 – CompTel/ALTS, the leading industry association representing competitive communications providers, released a report today that shows the United States is lagging behind European countries when it comes to implementing policies necessary for sustainable competition in the communications sector. The report explains the precipitous drop in the United States' international standing in broadband penetration.

Although the FCC often cites statistics showing increased broadband deployment in this country, it is broadband penetration (the number of subscribers that actually purchase broadband service) that truly measures the success of regulatory policies. Last week the Organization for Economic Cooperation and Development (OECD) reported that the U.S. dropped from 10th to 12th place in the OECD report on broadband penetration. OECD reported that 12.8 percent of Americans subscribed to broadband service in December 2004 -- compared with 24.9 percent in world-leader South Korea and 19 percent in the Netherlands, which is was in second place. Broadband penetration requires affordable broadband prices from a choice of providers, which will only be available to consumers in a robustly competitive marketplace. The CompTel/ALTS report concludes that although the statutory framework for the creation of a competitive communications marketplace – the Telecommunications Act of 1996 – contains all the necessary tools to foster widespread broadband penetration, the Federal Communications Commission (FCC) has failed to properly implement the statute. Specifically, the report concludes that "the USA is brought down by implementation of regulation rather than the structure or the regime" adopted by Congress in the 1996 Act.

"For the past several years, the FCC has failed to adopt regulations that properly implement the network access provisions of the 1996 Act," said Earl Comstock, CEO of CompTel/ALTS. "Congress created a regulatory framework so that businesses and consumers would have lower prices and more choices for broadband services. This report illustrates that the FCC has the authority to fix the problem of broadband penetration if it wants to. This report also demonstrates that U.S. regulators – in their zeal to appear "deregulatory" – have closed networks to competition and denied consumers the benefits of the 1996 Act. As a result, the

U.S. continues to fall further behind the broadband penetration levels of countries that maintain consistently enforced regulatory regimes that guarantee network access at non-discriminatory rates."

The purpose of the scorecard is to provide an objective measure of the effectiveness of different national regulatory environments. According to the report, the U.S. regulatory environment beats out only Germany and Belgium, giving it the third lowest score of the 11 countries surveyed. The United States scores particularly poorly on criteria related to "dispute settlement," because FCC dispute procedures are long and drawn out, harming a carrier's ability to enter the market effectively. The scorecard puts the U.S. well behind the core European markets, where broadband penetration has been advancing rapidly, and where prices have continued to fall to the benefit of consumers and business customers. FCC statistics released last week echo the findings that a lack of competition results in higher prices for all communications services: in 2004, businesses in the U.S. paid an average of $43.75 for a phone line, compared to $41.96 in 2003, an increase of 4.3%.

Denmark, the Netherlands and the United Kingdom were markets that topped the scorecard and were considered most likely to attract new entrants and investment. These countries also scored high on the OECD broadband penetration report, which indicates a strong correlation between regulatory policies that promote network access and the success of broadband penetration.

The report was jointly produced by Jones Day and the Strategy and Policy Consultants Network, and follows the methodology of the European Competitive Telecommunications Association (ECTA) scorecard, a well respected and highly detailed report on the effectiveness of regulatory regimes. Its release comes less than a month after the International Telecommunications Union (ITU) dropped the United States to 16th in its annual broadband penetration rankings. The U.S. ranked fourth as recently as 2001.

"There is a general assumption that the U.S. is ahead of the game when it comes to pro-competitive regulation; however, in the telecom sector it is clear that the U.S. is failing to provide the necessary measures that are required to make the market more effective, transparent and competitive," said Richard Cadman of Strategy and Policy Consultant Network, principal researcher for the study. "Where the EU regulatory framework has been properly implemented, it has proved to be more robust than the U.S. at ensuring that competitors have access to key wholesale products on fair and equitable terms."

About CompTel/ALTS

CompTel/ALTS was formed in March 2005 by the merger of CompTel/ASCENT and the Association for Local Telecommunications Services (ALTS). With more than 350 members, CompTel/ALTS is the leading industry association representing competitive communications service providers, emerging VoIP providers, integrated communications companies, and their supplier partners. CompTel/ALTS members are building and deploying IP and other packet based networks to provide competitive voice, data, and video services in the U.S. and around the world. The association, based in Washington, D.C., includes companies of all sizes and profiles, from next generation network operators to small, entrepreneurial companies. CompTel/ALTS members share a common objective: to create and sustain true competition in the telecommunications industry.

About the Authors of the Regulatory Scorecard

Jones Day is an international law firm with 30 locations in centers of business and finance throughout the world. With more than 2,200 lawyers, including more than 400 in Europe, it ranks among the world's largest law firms.

SPC Network is a strategy, policy and economics consultancy specializing in electronic communications markets working for a variety of electronic communications companies across Europe. For further information visit www.spcnetwork.co.uk

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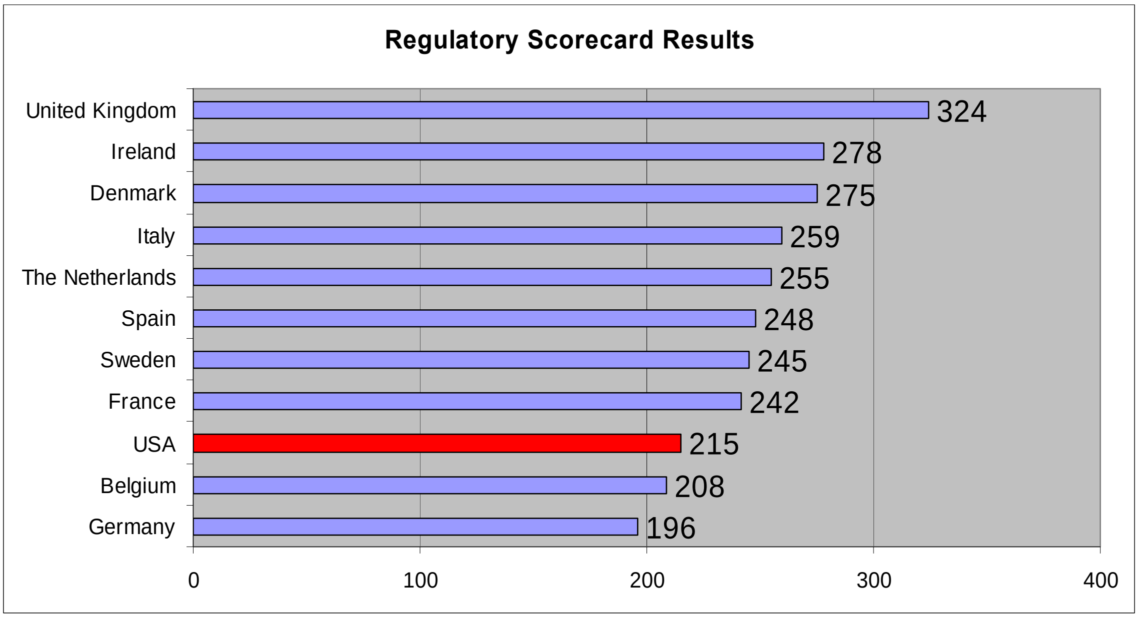
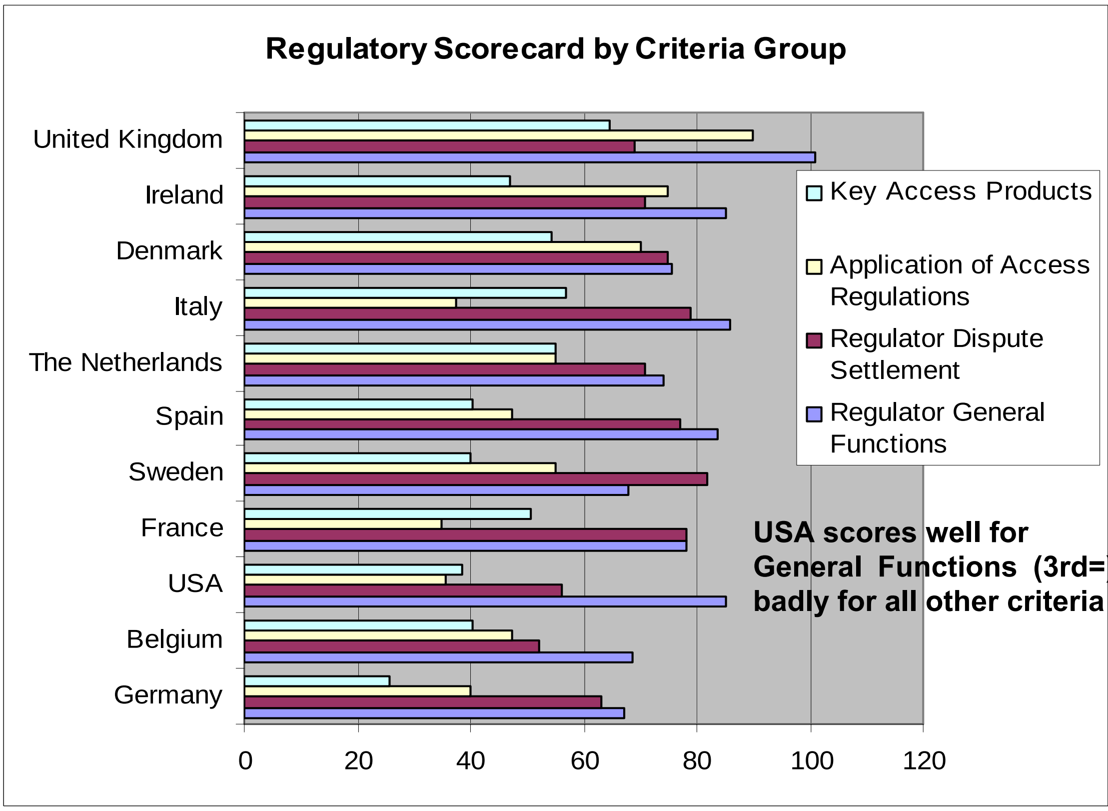
ANNEX 2

Scorecard USA

Report on the effectiveness of national regulatory frameworks and investment impact – Jones Day/ECTA – 8 April 2005





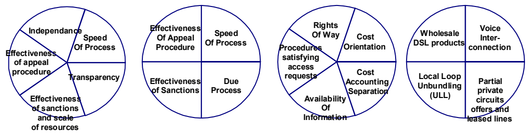
USA scores well for General Functions (3rd=), but scores badly for all other criteria groups

ANNEX 2
(Continued)

Scorecard USA (continued)

Report on the effectiveness of national regulatory frameworks and investment impact – 8 April 2005

Red = Weakness
Yellow/Amber = Neutral
Green = Strength



	Regulator: General	Regulator: Dispute General	Access: Regulation	Access: Products	2005
Belgium					-9
Denmark					1
France					-4
Germany					-9
Ireland					4
Italy					-2
Netherlands					-3
Spain					-5
Sweden					-5
United Kingdom					11
United States					-8