SINGAPORE TELECOMMUNICATIONS LTD
SINGAPORE TELECOM MOBILE PTE LTD
SINGNET PTE LTD

RESPONSE TO IDA CONSULTATION PAPER –
GUIDELINES ON MAXIMUM CONTRACT TERM AND EARLY TERMINATION CHARGES FOR TELECOMMUNICATION SERVICES OFFERED TO CONSUMERS

1. INTRODUCTION

1.1. Singapore Telecommunications Ltd, Singapore Telecom Mobile Pte Ltd and SingNet Pte Ltd (collectively **SingTel**) refer to the Info-communications Development Authority of Singapore (**IDA**) consultation paper dated 23 December 2008 on Guidelines on Maximum Contract Term and Early Termination Charges for Telecommunication Services Offered to Consumers (**Consultation Paper**).

1.2. SingTel welcomes the opportunity to make this submission on the Consultation Paper and the various queries posed by the IDA.

2. GENERAL COMMENTS

No evidence that Proposed Guideline will promote effective competition

2.1. IDA's stated intent in proposing the guidelines in its Consultation Paper is to promote effective competition by allowing consumers to switch service providers freely.

2.2. As illustrated below, the fixed-line telephony, mobile and broadband sectors are already effectively competitive. The IDA has not provided any evidence to support its claim that the proposed guideline will promote effective competition.

2.3. The introduction of these guidelines will restrict the service providers' ability, flexibility and creativity in developing new and innovative service offers that benefit consumers. The proposed guidelines will operate as a barrier to innovation and will extinguish any consumer benefits derived from such innovation. In doing so, the introduction of these guidelines is likely to have the effect of 'dampening' effective competition.

There is no market failure to warrant IDA intervention

2.4. A key principle of Singapore's regulatory framework to date has been regulatory intervention only where necessary, and only to the extent necessary to overcome deficiencies in competition. Accordingly, the regulatory intervention contemplated by the IDA suggests that there is some deficiency in competition evidenced by some market failure which needs to be addressed. SingTel submits that there is no such market failure and the current highly competitive state of the Singapore telecommunications market means that the proposed regulatory intervention is not warranted.

2.5. Competition in the mobile sector is highly vigorous and intense. As at December 2008, the mobile penetration rate (per person) stood at 130.1% - one of the highest in the world. It is now evident that competition in the mobile sector has shifted to a focus on competition in tariff diversity, product innovation and quality of service. Mobile tariffs are diverse and reflect a variety of pricing and packaging combinations addressing various customer requirements. Mobile service providers offer a range of price plans with different monthly subscription charges and incoming/outgoing call charges bundled with minutes of use, SMS and value-added features.

2.6. The IDA has also recognised that the mobile sector is healthy, mature and competitive. In announcing the IDA decision to allow mobile service providers the flexibility to charge different prices for intra-network calls (i.e., made between its subscribers) and inter-network calls (i.e. made between its subscribers and subscribers of other mobile service providers) the IDA stated:

"Using the same market-based approach, and recognising that the mobile market in Singapore is mature and competitive, IDA is also lifting its policy that previously prevented operators from pricing intra- and inter-network mobile calls differently."
....

"This move is aligned with IDA's approach of minimising regulation in markets that are effectively competitive." [1]

2.7. Competition is equally vigorous and effective in the broadband sector. Intense competition has driven broadband penetration to be amongst the highest in the world - as at December 2008, the broadband penetration rate (per household) stood at 96.9%. Consumers have access to a multitude of different broadband internet services, utilising a variety of broadband technologies. Like mobile service providers, broadband service providers offer a range of price plans and speeds with different monthly subscription charges and value-added features. The broadband sector is characterised by a plethora of wired and wireless broadband alternatives:

- ADSL offering up to 25Mbps;
- Cable modem offering up to 100Mbps;
- Three 3G networks which have been upgraded to HSDPA;
- Six WBA licensees in the 2.3GHz and 2.5GHz bands; and
- A nationwide Wireless@SG network with more than 1 million registered users.

2.8. The mobile service providers have also implemented enhancements in their high speed broadband services. For example, SingTel Mobile announced that it would invest S$220 million in its 2G and 3G mobile networks as part of its expansion and enhancement programme so that customers can expect even better user experience, with download speeds of up to 14.4 Mbps (from the current 3.6 Mbps) and upload speeds of 5.76 Mbps (from the current 384 kbps). More recently, SingTel Mobile indicated that it will offer a 21Mbps service to customers progressively this year subject to the availability of supporting mobile devices.

2.9. With respect to the fixed line telephone sector there are two (2) nationwide wireline networks and extensive duplication of infrastructure that offer telephony services. StarHub's extensive network deployment, which covers 99% of Singapore, is well documented. Consumers have a choice. Competition in the fixed line telephone sector is also intense as demonstrated by a recent offer of free local telephony service to pay TV subscribers.

[1] IDA, *Singapore's Mobile Market Gets New Impetus For Growth*, 3 January 2005

2.10. In summary, the introduction of these guidelines is not warranted. There is no deficiency in competition evidenced by some market failure which needs to be addressed by the IDA vide these guidelines. The fixed line, mobile and broadband sectors are vigorously competitive. The guidelines will restrict the service providers' ability, flexibility and creativity in developing new and innovative service offers that benefit consumers and have the likely effect of 'dampening' competition between service providers'.

2.11. SingTel provides its specific comments to the IDA queries below.

3. SPECIFIC COMMENTS

Question 1: IDA seeks comments on the proposed guideline that the contract term for mobile, fixed-line telephone and broadband services offered to consumers should not exceed 24 months.

3.1. Consumers have the choice to subscribe to services on shorter contract terms if they do not wish to subscribe to a service for terms longer than twenty-four (24) months. For example, SingTel offers its mobile, fixed-line telephone and broadband services to its customers on varying contract terms ranging from 3 months to 30 months. Customers have the choice to choose the service package and contract term that best meets their requirements.

3.2. In relation to promotional service packages that are bundled with attractive premiums, the tenure of the contract and the monthly subscription are inter-dependent. The optimal combination of tenure of contract and the monthly subscription is one that is commercially viable to the service provider and at the same time attractive to the customers. As highlighted in The Straits Times article dated 8 January 2009, consumers are "savvy in finding the best deals and are fully cognisant of the fact that the more attractive the deal, the greater the cost and the longer tenure of the contract and/or the higher early termination charge (**ETC**)". Restricting contract terms to a maximum of 24 months (for promotional service packages bundled with equipment or premiums) would result in certain promotional services packages not ever being offered and/or being offered at a higher monthly subscription or with less attractive premiums. Either situation would be undesirable from a consumer benefit perspective.

The introduction of this guideline would, in effect, deprive consumers of the opportunity to obtain attractive premiums such as equipment/gadgets and/or services at a lower monthly subscription.

3.3. Service providers should have full flexibility to develop innovative service packages and consumers should have the opportunity and choice to avail themselves of these service packages. IDA intervention to restrict the tenure of contracts to a maximum of 24 months simply limits consumer choice. Where services are available to consumers on shorter contract terms, as is the case, the maximum contract term should be left to the market and consumers to determine.

Question 2: IDA seeks comments on the proposed guideline that the ETCs for mobile, fixed-line telephone and broadband services offered to consumers (of contract periods longer than 3 months) should be gradated, to ensure compliance with Section 3.2.3 of the Code.

3.4. SingTel submits that the ETCs are fully compliant with Section 3.2.3 of the Telecom Competition Code (**Code**). This provision has been in the Code since September 2000 and there has never been any suggestion that the ETCs are not compliant. Accordingly, SingTel does not agree with the IDA's apparent premise upon which the guideline for ETCs is proposed.

3.5. The ETC takes into consideration the discount quantum, the value of premium(s) offered and the committed tenure of the term. Proposing graduated ETCs is premised on the assumption that a service provider would have offered the service package with the attractive premium(s) regardless of whether the full tenure of the term would be honoured i.e. if the full term were not honoured, a graduated ETC would be satisfactory to the service provider. This assumption is incorrect. This would effectively turn a service contract into a "pay-as-you-use" scheme – this is not the service providers' intent.

3.6. Service providers develop and offer service packages and attractive premium(s) on the basis and the assumption that the customer will honour the full term of the contract. For example, a service provider would not offer a service package with attractive premium(s) for a 30 month contract term if customers were in fact only going to honour 14 months of the 30-month contract term. If indeed, customers were only going to honour 14 months of the 30-month contract term, then it is highly likely that the service provider would not offer that particular service package and attractive premium(s) at all or would only offer it on different terms such as a shorter contract term and a higher ETC and/or less attractive premium(s).

3.7. SingTel would also note that a graduated ETC is also not simple or straightforward. For example, a service provider may offer a service package with attractive premium(s) for a 30-month term. The monthly recurring charge for the 30-month term may be the same as that for a 12-month term – the only difference being the attractive premium(s). If, for example, the customer terminates after only 12 months, the service provider has not realised any gains at all – the service provider has earned the same amount of revenue as it would have earned under the 12-month contract. It would therefore be inappropriate to then use a graduated ETC.

3.8. SingTel would also highlight that the service providers' billing systems are unlikely to be able to support the proposed graduated ETCs. There would be considerable time and cost involved in implementing billing system changes in order to support the imposition of graduated ETCs

3.9. For the reasons outlined above, SingTel does not support the proposed graduated ETCs. Service packages with attractive premium(s) are developed and offered on the basis that the customers will honour the full contract term. If a customer wants greater flexibility, the customer should subscribe to other service packages with shorter contract terms. The structure of ETCs should be left to the service provider to determine.

Question 3: IDA seeks comments on the proposed guidelines for computing the fair quantum of the ETC for mobile, fixed-line telephone and broadband services offered to consumers, to ensure compliance with Section 3.2.3 of the Code.

3.10. SingTel would refer the IDA to its comment to Question 2 above. SingTel does not support the proposed graduated ETCs. SingTel agrees that service providers should be upfront and transparent to customers in relation to the service terms and conditions, including the ETC. This should be clearly explained to the customers prior to the customers signing-up for the service.

3.11. SingTel notes that the example given in illustration 2 is misleading. The illustration gives the impression that all costs can be itemised and certain costs such as the Wholesale Broadband Access Service are necessarily avoidable. This is not the case. Whether a cost is avoidable is subject to debate – it is not always clear. The Wholesale Broadband Access Service cost may not be avoidable because the service provider may not want to release the line should a customer terminate the service or the service provider may have committed to a minimum volume of lines in which case the service provider will be charged for the line whether it is active or not.

3.12. Further, the Wholesale Broadband Access Service is not the only cost to the service provider in providing a broadband service to a customer. The cost of the network infrastructure that is required to support the service must also be taken into consideration. Investment in network infrastructure is 'lumpy' in nature. Indeed, committed contract terms assist in providing service providers with the commercial certainty make investments in the necessary infrastructure to support the provision of services. Network infrastructure costs do not decrease when one customer terminates a service. The network cost remains and these costs that must be considered and recovered.

3.13. As highlighted in our response to Question 2, structuring the ETC in the manner as proposed by the IDA effectively turns a service contract into a "pay-as-you-use" scheme. This increases the business risks of the service provider. Increased business risks means either the service provider will not accept the risk and therefore no longer be prepared to offer certain service packages and attractive premium(s) or will expect a higher return. This would be to the ultimate detriment of consumers.

3.14. As previously indicated, the structure of ETCs should be left to the service provider to determine.