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BEFORE THE

FEDERAL COMMUNICATIONS COMMISSION

WASHINGTON, D.C.

FEB - 7 1997

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

In the Matter of	)	IB Docket No. 96-261
	)	
International Settlement Rates	)	

TO: The Commission

COMMENTS OF SINGAPORE TELECOMMUNICATIONS LIMITED

Singapore Telecommunications Limited ("Singapore Telecom"), by its attorneys, hereby submits these comments in response to the Notice of Proposed Rulemaking (FCC 96-484) released by the Commission in the above-captioned proceeding on December 19, 1996 [hereinafter "Notice"]. Singapore Telecom is licensed to provide telecommunications and postal services in Singapore. In the last decade, Singapore Telecom has transformed itself into one of the most modern and efficient operators in the world. As a major telecommunications operator in Asia, the company is committed to supporting Singapore as a leading telecommunications hub and business center. It offers a wide range of competitively priced telecommunications services. Since 1985, it has been annually reducing its international direct dial collection rates to the benefit of its subscribers.

Singapore Telecom understands and shares the concern of the FCC and U.S. carriers that global settlement rates today are not fully rationalized at cost-oriented levels. With the principal exception of the U.S. route where Singapore Telecom is a net recipient of settlement revenues, Singapore Telecom makes net settlement payments under varying settlement rate arrangements to its foreign correspondents on virtually all routes. In 1995, Singapore Telecom's total net settlement payments to foreign correspondents totaled $65

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million, or approximately $22 (U.S.) per capita, which is roughly of the same magnitude as aggregate U.S. net settlement payments of $5 billion per year or approximately $20 (U.S.) per capita. Therefore, Singapore Telecom's position and interests are highly similar to those of the U.S. facilities-based providers of international switched services.

While Singapore Telecom agrees with the FCC that many settlement rates are too high and that settlement rates can vary from one route to another without apparent cost justification, Singapore Telecom respectfully disagrees that unilateral action by the FCC will accomplish any goal other than benefiting U.S. carriers at the expense of foreign carriers and foreign rate-payers. Further, Singapore Telecom does not believe that the settlement rate benchmarks and related policies proposed by the FCC will result in cost-oriented rates in compliance with ITU-T Recommendation D.140. Singapore Telecom strongly urges the FCC to work through the International Telecommunications Union to achieve a consensus on global accounting rate reform to the benefit of all countries, not just the United States.

I. THE FCC'S PROPOSED RULES WOULD BE INCONSISTENT WITH GOVERNING INTERNATIONAL REGULATIONS

The FCC's proposal to adopt mandatory settlement rate benchmarks contravenes governing international telecommunications regulations requiring the conduct of relations according to "mutual agreement" (ITU-T Article 1.5) and the establishment and revision of accounting rates by "mutual consent" (ITU-T Article 6.2.1). By proposing to mandate settlement rate benchmarks applicable to foreign carriers for terminating U.S.-billed traffic in their own countries, the FCC would be acting plainly contrary to the letter and spirit of those ITU-T principles. Singapore Telecom urges the FCC to address the issue of global accounting rate reform with the International Telecommunications Union, the

appropriate multilateral forum. Within that forum, Singapore Telecom would support efforts to ensure that settlement rates are rationalized according to costs on a global basis. However, such reforms cannot work fairly unless they are implemented in a reasonable and non-discriminatory fashion for all countries according to the same timetable.

The FCC's statement (Notice at para. 19) that it is not seeking to regulate foreign carriers would be supportable only if the benchmarks were guidelines rather than prescriptions. The FCC's proposals (Notice at para. 89) to take enforcement action against non-complying foreign carriers by directing U.S. carriers to pay settlements at or beneath benchmark levels serve to confirm that the purpose and effect of the FCC's proposals are to bind foreign carriers to FCC-prescribed settlement rates regardless of whether they consent to such rates. Rather than pursuing a unilateral solution to an inherently multilateral issue in a way that contravenes applicable ITU-T principles and favors the interests of U.S. carriers over carriers in other countries, the FCC should direct its efforts to a resolution of these issues within the ITU as the appropriate multilateral forum.

II. THE NET SETTLEMENTS IMBALANCE ON THE U.S.-SINGAPORE ROUTE RESULTS FROM THE HOME COUNTRY DIRECT, CALLBACK AND REFILE SERVICES OF U.S. CARRIERS

The Notice seeks to draw a causal connection between high notional settlement rates and the growing U.S. net settlements imbalance, which the FCC estimates to approximate $5 billion (U.S.) annually. In fact, the relationship between notional settlement rates and the U.S. settlements imbalance is highly tenuous as a general matter, and non-existent in the context of specific routes.

In 1990 the in-out ratio between U.S.-billed and Singapore-billed traffic on the U.S.-Singapore route was virtually 1:1. Given the absence of a significant traffic imbalance

between the two countries, net settlement payments were minimal and the notional settlement rate did not have a material economic impact upon U.S. carriers or Singapore Telecom. However, in recent years there has been a significant increase in home country direct, callback and refile services offered by the U.S. carriers. These services have created a significant traffic imbalance on the route, changing the in-out ratio from 1:1 to the current level of 3:1, with the result that Singapore Telecom is now a net recipient of settlement payments from U.S. carriers. On the U.S.-Singapore route, Singapore Telecom estimates that more than 50% of all U.S.-billed traffic originates in a country other than the United States. By contrast, Singapore Telecom's traffic growth on the U.S. route, as well as on other international routes, is due to the organic growth in Singapore-originating traffic, not reverse-billed or refile services. Significantly, the increase in the U.S. carriers' net settlement payments to Singapore Telecom has occurred while the accounting rate has declined from 0.84 to 0.62 SDR/minute today. Therefore, the cause of the net settlements imbalance on the U.S.-Singapore route is not the notional settlement rate, but the reverse-billed and refile services offered by U.S. carriers.

Further, it would be incorrect to portray the relatively new U.S. settlement imbalance on the U.S.-Singapore route as harmful to U.S. carriers or U.S. rate-payers. The settlement costs of U.S. carriers cannot fairly be evaluated in a vacuum; they must be considered in the context of the services they support and the revenues they produce. On the U.S.-Singapore route, the revenues collected from the sales of home country direct, callback and refile services more than cover the associated net settlement payments that U.S. carriers must make to Singapore Telecom. Further, it is within the control of the FCC and U.S. carriers whether these new types of services are offered. If the FCC believes that the

increased settlement payments by U.S. carriers to Singapore Telecom are ultimately harmful to the U.S. public interest, then it should take steps to eliminate the services offered by U.S. carriers that have caused those payments. If, as appears to be the case, the FCC desires to encourage U.S. carriers to offer those services with the inevitable result of increasing the traffic imbalance and the net settlement payments of U.S. carriers, then the FCC has no basis to complain that the growth of the U.S. net settlements imbalance in recent years is harmful to U.S. rate-payers.

Further, the Notice fails to appreciate that notional settlement rates do not coincide with the costs paid by U.S. carriers to terminate U.S.-billed traffic in foreign countries. U.S. carriers pay the full or notional settlement rate only on the traffic imbalance on a route. Where there is no traffic imbalance, the U.S. carriers make no settlement payments and incur no settlement costs regardless of how high the notional settlement rate may be. The unit (i.e., per-minute) settlement rates paid by U.S. carriers are a function of the notional settlement rate, the traffic imbalance, and the relative size of the traffic imbalance compared to the overall volume of traffic on a route. Because it is unit settlement rates rather than notional settlement rates that reflect what U.S. carriers actually pay foreign carriers for the termination of U.S.-billed traffic in foreign countries, the FCC's proposed effort to align notional settlement rates with foreign carriers' termination costs is fundamentally misdirected.

Lastly, the FCC should not ignore that the volume of U.S.-outbound traffic on the U.S.-Singapore Telecom route is artificially decreased to the detriment of foreign carriers by the above-cost collection rates charged by U.S. carriers for calls from the United States to Singapore. The FCC recognized in the Notice (at para. 9) that there is "limited competition

in the IMTS market" in the United States. In its decision reclassifying AT&T as a nondominant U.S. international carrier, the FCC stated:

> "We agree that U.S. international calling prices are at the very high end of the 'zone of reasonableness.' Indeed, residential IMTS pricing is significantly higher and more profitable than U.S. domestic long distance calling prices, and some IMTS prices have risen over the past several years. AT&T's average revenue per minute (ARPM) for international services is $0.98, which is six times the ARPM for domestic services. This provides some evidence to suggest that either AT&T has the ability to set price, or that there are other significant problems . . . that result in prices higher than they would be in a more competitive market."[1]

Due primarily to the lack of IMTS competition in the United States, AT&T's standard tariffed collection rate of $1.67/minute (U.S.) for calls to Singapore is far above AT&T's costs of originating such calls.[2] By comparison, Singapore Telecom's standard tariffed rate for calls to the United States is 50% lower at $0.84/minute (U.S.). The above-cost collection rates charged by U.S. carriers on the route have artificially suppressed outbound demand, the traffic imbalance, and net settlement outpayments by U.S. carriers. With all due respect, the question the FCC should be addressing is not whether the U.S. net settlements imbalance is too high, but whether it is too low.

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[1] See Motion of AT&T Corp. to be Declared Non-Dominant for International Service, 3 Comm. Reg. 111, 128-29 (para. 82) (1996).

[2] AT&T's high collection rate for calls to Singapore cannot be attributed to the U.S.-Singapore settlement rate. According to the FCC, AT&T's costs of originating calls to Singapore are less than $.06/minute, and AT&T's unit settlement costs on the route today less than the notional settlement rate. As a result, the principal cause of AT&T's above-cost collection rate would appear to be lack of IMTS competition in the U.S.

III. THE FCC'S PROPOSED BENCHMARKS WOULD AGGRAVATE THE TRAFFIC IMBALANCE ON THE U.S.-SINGAPORE ROUTE

Ironically, a principal effect of the FCC's effort to prescribe lower settlement rate benchmarks would be to add fuel to the fire causing a substantial and growing traffic imbalance between the U.S. and other countries. As a result, the ultimate effect of the FCC's proposals could be further increases in the U.S. net settlements imbalance. This could result in a vicious cycle of additional settlement rate reductions mandated by the FCC and a continually worsening traffic imbalance between the U.S. and foreign countries. Singapore and other countries would be forced to continually add circuits to the U.S. route to handle the refile traffic that originates from third countries, while the efficiency with which existing facilities on other routes are used would decline.

On the U.S.-Singapore route, lower settlement rates for U.S. carriers will inflate the already substantial profit margins that have spawned the refile services that are partly responsible for the growing traffic imbalance on the route. Under the FCC's proposals, Singapore Telecom's foreign correspondents will have even stronger incentives than today to refile traffic through the United States to (i) minimize the settlement rates that they must pay to terminate their own traffic in Singapore; and (ii) inflate the traffic imbalance on their direct route with Singapore to maximize the settlement rates that Singapore Telecom must pay to terminate traffic in their countries. While the beneficiaries of refile are the foreign carriers who originate such traffic and the U.S. carriers who act as a hub, the victims of refile are carriers like Singapore Telecom and their rate-payers, who ultimately must bear the higher settlement costs that refile causes for the destination country.

Moreover, the FCC's benchmark proposals, if they succeed in reducing settlement rates for U.S. carriers, will do so at the cost of making it even more difficult for Singapore Telecom and similar carriers to negotiate lower settlement rates with their own foreign correspondents. As U.S. refile margins become more attractive for Singapore Telecom's correspondents, the economic loss from negotiating reduced settlement rates with Singapore Telecom will increase and Singapore Telecom inevitably will find it more difficult to persuade its correspondents to accept lower settlement rates. The FCC should not make accounting rate reform a zero-sum game by adopting rules that will benefit U.S. carriers at the expense of all other foreign carriers who are net settlement payors.

IV. THE FCC'S PROPOSED MANDATORY BENCHMARKS ARE NOT SUPPORTED BY EVIDENCE AND ARE UNWISE POLICIES

Singapore Telecom does not agree with the FCC that Total Service Long Run Incremental Costs ("TSLRIC") is the only methodology for deriving "cost-oriented" settlement rates between international carriers. Most countries do not apply or even recognize TSLRIC, and the FCC itself has not consistently required U.S. carriers to charge TSLRIC-based wholesale or retail rates for services to end-user subscribers or other carriers. In any event, the FCC by its own admission lacks the data necessary to apply the TSLRIC methodology to settlement rates for the termination of U.S.-billed traffic in foreign countries. Notice at paras. 33, 50 & 55. The FCC should not mandate an undeveloped theory which is largely alien to the regulatory practices of other countries and where the data necessary to implement the theory do not exist.

The FCC's proposed tariff component pricing ("TCP") approach is not an accurate methodology for deriving cost-oriented settlement rates. Based upon Singapore

Telecom's experience with the costs of providing service in Singapore, the FCC's overall TCP of $0.076/minute is far beneath the costs incurred by Singapore Telecom in connection with U.S.-billed international switched service. In particular, Singapore Telecom's local calling rate of less than $.01/minute is among the lowest in the world. In addition, the TCPs for international transmission and switching seriously understate Singapore Telecom's actual cost experience in handling U.S.-billed traffic.[3] The numerous deficiencies of the TCP approach make it impossible to determine on any route whether the current settlement rate or the overall TCP is closer to the actual costs incurred by the foreign carrier in connection with U.S.-billed traffic.

Singapore Telecom also objects to the FCC's proposal to use the World Bank classifications as a basis for calibrating the comparative cost levels of individual countries. The correlation between economic development and telecommunications costs is far less clear than the FCC suggests. Even within a single income category, the enormous cost variations from one country to the next preclude using economic development as a proxy for the cost sensitivity of individual countries. For example, within the high-income category the overall TCPs vary from a low of $0.07/minute for Hong Kong to a high of $0.314/minute for Austria. Similarly, the overall TCPs in the middle-income category range from $0.087/minute for Jamaica to $0.355/minute for Indonesia, while the overall TCPs for the low-income category range from $0.12/minute for Guyana to $0.426/minute for Kenya. A visual examination of the FCC's TCP analysis demonstrates its lack of statistical validity.

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[3] In particular, the FCC ignores the extent to which smaller foreign carriers such as Singapore Telecom cannot achieve the same economies and efficiencies as U.S. carriers in purchasing switching equipment or transmitting traffic over fiber optic circuits.

V. THE FCC SHOULD REQUIRE U.S. CARRIERS TO PASS THROUGH ALL SETTLEMENT REDUCTIONS TO U.S. CONSUMERS

The Notice seeks comment (at para. 91) on whether the FCC should "encourage" U.S. carriers to use settlement rate reductions to fund lower collection rates for U.S. consumers. Singapore Telecom submits that the FCC should require, not merely encourage, U.S. carriers to pass through all settlement reductions to U.S. consumers in the form of lower collection rates. Due to the lack of IMTS competition in the United States, the collection rates of U.S. carriers to Singapore are far in excess of those carriers' underlying costs. Rather than seeking to regulate the settlement rates charged by foreign carriers, the FCC should seek to regulate the retail rates charged by U.S. carriers to U.S. consumers. For the FCC to propose requiring foreign carriers to comply with FCC-prescribed settlement rate benchmarks while merely encouraging U.S. carriers to reduce their above-cost collection rates would cast doubt upon the FCC's stated purpose of promoting cost-oriented telecommunications rates.

CONCLUSION

For the foregoing reasons, Singapore Telecom submits that the FCC should not adopt the settlement rate benchmark policies as stated in the Notice.

Respectfully submitted,

SINGAPORE TELECOMMUNICATIONS LIMITED

By: _____

Robert J. Aamoth
Kelley Drye & Warren LLP
1200 19th Street, N.W., Suite 500
Washington, D.C. 20036
(202) 955-9676

February 7, 1997

Its Attorney

CERTIFICATE OF SERVICE

I, Kim S. Harris-Miles, hereby certify that I have served a copy of the foregoing "Comments of Singapore Telecommunications Limited" on this 7th day of February, 1997, upon the following parties by hand delivery:

Donald Gips
Chief, International Bureau
Federal Communications Commission
2000 M Street, N.W., Room 827
Washington, D.C. 20554

Diane J. Cornell
Chief, Telecommunications Division, International Bureau
Federal Communications Commission
2000 M Street, Room 838
Washington, D.C. 20554

Peter Cowhey
Chief, Multilateral and Development Branch
Federal Communications Commission
2000 M Street, Room 849
Washington, D.C. 20554

Kathryn O'Brien
International Bureau
Federal Communications Commission
2025 M Street, N.W., Room 5202
Washington, D.C. 20554

International Transcription Services
1919 M Street, N.W., Room 246
Washington, D.C. 20554

Kim S. Harris-Miles