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RESPONSE

TO

**THE TELECOMMUNICATIONS REGULATORY AUTHORITY OF
BAHRAIN (TRA)**

**MARKET AND COMPETITION REVIEW OF THE RETAIL MARKETS
FOR ACCESS TO CALL SERVICES INCLUDING DOMESTIC CALLS
FROM A FIXED LOCATION**

DRAFT DETERMINATION

BY

BAHRAIN TELECOMMUNICATIONS COMPANY (BATELCO) B.S.C.

ON

11 February 2016

(Our Ref GCL/75/16)

Introduction

- a) This submission is made to the Telecommunications Regulatory Authority by Bahrain Telecommunications Company (B.S.C.) (Batelco), in response to the Draft Determination Paper on the *“Review of the Retail Markets for Access to Call Services including Domestic Calls from a Fixed Location”* issued by the TRA on 15 December 2015 (“the Consultation”).
- b) Batelco welcomes the opportunity to make this submission to the TRA’s Consultation.
- c) Batelco’s interest in this matter is that Batelco is materially affected by the issues raised in the Consultation, on the basis that it is a leading provider of telecommunications services within the Kingdom of Bahrain.
- d) Confidential material in this document has been highlighted in yellow.
- e) This submission addresses the substantive issues contained in the Consultation and provides responses to the TRA’s specific questions.
- f) The structure of the submission is as follows:
 - Introduction
 - Responses to the TRA’s specific questions
- g) This submission is made by Bahrain Telecommunications Company B.S.C.
- h) Batelco’s principal contact for this response is:

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Batelco's responses to the TRA's Specific Questions

Question 1

Do you agree with the Authority's definition of the markets for mass-market access and premium access to domestic calls from a fixed location in Bahrain? If not, please explain why.

1. Whilst Batelco agrees that the retail market for mass-market access to calls services should no longer be subject to ex-ante regulation, it does not consider there should also be a separate market for premium access to call services that will remain subject to regulation of this kind.
2. The TRA stated at paragraph 455 of its strategic market review (SMR) consultation that Batelco has only 80,000 business fixed lines out of a total fixed line subscriber base of 250,000 and as detailed in Figure 1 of the Consultation, there is a declining trend in these numbers, especially in relation to revenue and traffic, with more and more evidence pointing to substitution to mobile services and OTT over both fixed business and consumer lines as well as unlimited voice minutes bundled with mass market broadband packages. Of these 80,000 business lines, only approximately 2,600 offer premium access to call services (ISDN) which seems insignificant compared to over 2,000,000 mobile subscribers present in the market.
3. Batelco has carried out an internal study looking at figures between 2012 - 2015 and as provided in our response to the SMR last year, the results do not support the statistics provided at paragraph 39 of the Consultation which refer to an increase of 6% in ISDN subscriptions over the past 5 years.

Decline in ISDN customers, revenue and traffic between 2012 - 2015: (graphs to be considered confidential)



















ISDN	Year 2012	Year 2013	Year 2014	Year 2015
No of customers				
Revenue				
Traffic				

4. Business customers are becoming much more price sensitive and we have seen a significant increase in the number of customers moving to operators that offer other premium based access to call services using mostly IP-based solutions, a clear sign that other suitable voice options exist and are readily available in the market. It does not seem appropriate, therefore, for the TRA to then be carrying out a comparison of ISDN subscribers/minutes with only that of PSTN (paragraph 45).
5. In general, most business customers look at a whole range of communications services that can be offered by a particular operator and not just a single service so we are quite surprised that domestic calls from ISDN lines would be an area of concern for the TRA, noting that if any potential predatory pricing or price increases were to be applied, the customer would most likely terminate his services and move elsewhere.
6. Additionally, we note that TRA is already deepening regulation towards regulating other parts of Batelco's business offerings being broadband and leased lines services (see draft reference offer order dated 15 December 2015). Competitors are therefore able to replicate so-called premium voice services using these existing and soon to be modified wholesale inputs at fair, reasonable and non-discriminatory rates using new technology. Where there is a bundled service involving for instance, ISDN, Batelco would still be required to notify this proposal anyway in light of the regulatory regime currently applicable to Batelco. If the TRA were minded to designate the premium market with SMP, then the current RTN regulation may require legacy wholesale ISDN inputs to be provided as part of the replicability requirements. This would amount to re-regulation or extended at the wholesale level as a consequence.

7. We note the recent AREGNET benchmarking report published after the Consultation was opened as well as the summary prepared by the TRA, in particular slide 23:



Summary of findings

	Bahrain results compared to GCC averages	Bahrain results compared to Arab averages	Bahrain results compared to OECD averages
PSTN (Low usage)			
PSTN (High usage)			
Mobile (Low usage)			
Mobile (High usage)			
Fixed broadband (Low speed)			
Fixed broadband (High speed)			
Mobile broadband (Low usage)			
Mobile broadband (High usage)			
Leased lines			
Better than ...			
On par with ...			
More expensive than ...			

* Only 2 Mb/s speed can be compared with the OECD data

8. For Bahrain at least, taking regional independent benchmarks into account, there is no regulatory market failure for premium voice services at the retail level which needs addressing. We highlight the general analytical approach followed by consultants to the European Commission's last review of the future markets subject to ex-ante regulation:

Figure - 1 Analytical cycle followed to address competitive issues in vertically related electronic communication markets

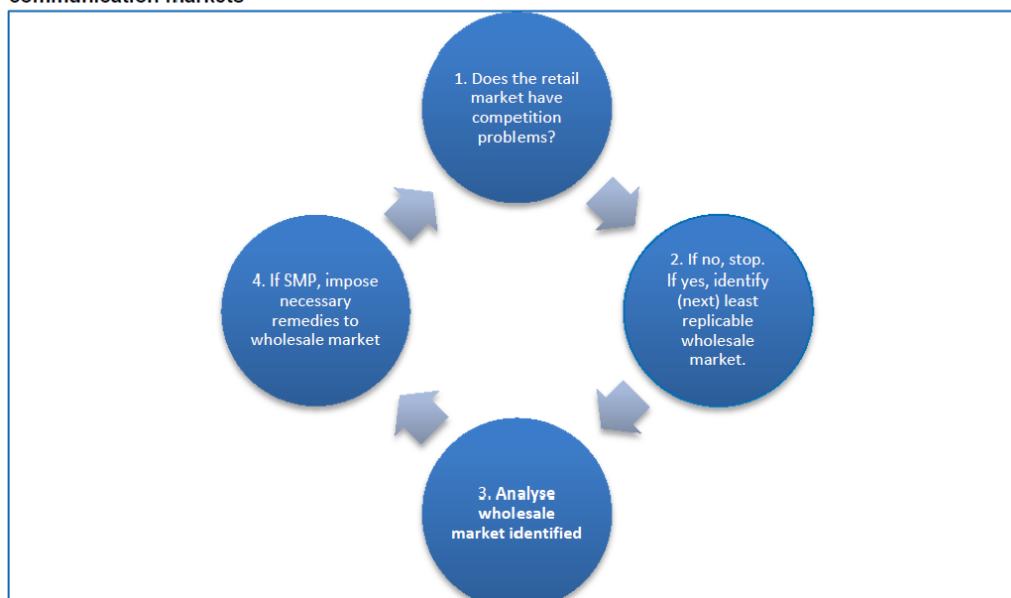


Figure 1, page 14 of the Ecorys report¹

9. Batelco submits that since there are no material identified competition problems at the retail level, the cycle of ex-ante regulation can be stopped. For fixed voice telephony markets, both at the retail and wholesale level, this was the conclusion reached in 2014 by the European Commission. Taking into account the need to update the regulatory framework to accommodate and encourage the transition to fibre, all remaining retail SMP markets were removed and the number of ex ante markets reduced from 7 in 2007 (down from 18 in 2003) to 4².
10. Taking into account the factors above and the size of the proposed market, the proposed decision to maintain SMP for a separate narrower market is disproportionate, considering current and prospective market conditions as well as the regulatory consequences of a retail SMP determination.

Question 2

Do you agree with the Authority's view that no operator holds SMP in the retail market for mass-market access to domestic calls from a fixed location? If not, please explain why.

11. Batelco agrees that no operator holds SMP in the retail market for mass-market access to domestic calls from a fixed location and our arguments above in respect of not designating a new narrower retail SMP market should also be considered here.

Question 3

Do you agree with the Authority's view that Batelco has SMP in the retail market for premium access to call services including domestic calls from a fixed location? If not, please explain why.

12. We strongly disagree with the view that Batelco has SMP in the retail market for premium access to call services and reiterate the supporting arguments set out above in this regard.
13. Furthermore it does not appear that the TRA has taken into account the impact and subscriber base of other IP based service providers in the Kingdom such as Viva, offering SIP Trunking to their customers, in their analysis of this market. We have seen a significant increase in the use of SIP trunking and other IP

¹ "Ecorys Idate and Icri report on Future electronic communications markets subject to ex-ante regulation", Final Report dated 18 September 2013 page 14

² "EC Recommendation on relevant product and service markets within the electronic communications sector susceptible to ex ante regulation" dated 9 October 2014 (2014/710/EU).

based voice services by business customers, replacing the need or requirement for traditional ISDN services and we expect this trend to continue.

14. There are countless studies showing the benefits of SIP Trunking over other forms of traditional telephony such as ISDN and internationally, it is seen to be more advantageous to business customers for reasons including, but not limited to, the following:

- (a) being more cost effective in terms of capex and opex as the cost of an *“Ethernet line is dramatically lower than multiple ISDN lines, while offering significantly higher scalable bandwidth”*³;
- (b) the cost of making an international call using VoIP enabled services is much cheaper than using ISDN infrastructure⁴;
- (c) convergence – whilst SIP can be used to support a wide range of services, including video, gaming and telephone conferencing, it can also set up *“virtual phone lines between a PBX and the public telephone network”* which will allow a call to travel over a customer’s internet connection and so reduces the need for more expensive ISDN circuits⁵. Businesses then gain the ability to use economies of scope and scale as a result of having voice, data and video services *“over a common IP network”*⁶;
- (d) independence of any particular type of access network – as SIP Trunking uses a common IP network, it can be offered using copper, wireless connectivity or fibre and is therefore available to all operators to develop accordingly⁷; and
- (e) ***“Flexibility in dimensioning – SIP Trunking services can be dimensioned based on average usage rather than peak”***⁸.

15. ISDN was built on a traditional legacy system and as such, is unable to develop in line with increasing demands by businesses for convergence and other similar features that IP based voice services are able to offer. *“The migration to IP telephony and Unified Communications requires fundamental changes to the underlying infrastructure, to enable the convergence of voice and data over IP-based LAN and WAN. This requires moving away from legacy services such as ISDN to maximise feature transparency optimally. The uptake of real-time applications having high bandwidth requirements is also a key driver for moving away from ISDN”*⁹.

³ *“SIP Trunking - An ISDN Voice Replacement - AAPT White Paper”* - <https://aapt.com.au/sip-trunking-isdn-voice-replacement-aapt-white-paper>

⁴ *“SIP Trunks versus ISDN for small and medium businesses”* - <http://www.examiner.com/article/sip-trunks-versus-isdn-for-small-to-medium-enterprises>

⁵ *“SIP Trunking”* – Kingston Telecom - <http://www.kingston-telecom.com/sip-trunking>

⁶ Telsyte’s findings in SIP Trunking - An ISDN Voice Replacement - AAPT White Paper, referred to above.

⁷ As above.

⁸ As above.

⁹ As above.

Question 4

Under what circumstances do you think such market (i.e. retail market for premium access to call service including domestic calls from a fixed location) could be deregulated?

16. Our response above to Q3 should be considered here – we believe the market is already competitive in light of other IP based voice providers and services offered, and as mentioned, ISDN business customers are a very small number of subscribers compared with the whole voice related services market. The revenue and traffic generated from these customers does not compare in any material way to that generated by mobile and VoIP services which are easily seen as reasonable substitutes to ISDN and any other premium access to call services in the market.

Question 5

Do you agree with the Authority's overall conclusions and the resulting implications? If not, please explain why.

For the reasons set out above, we do not agree with the conclusions set out in the Consultation which specifically relate to Batelco being considered to have SMP in the market for premium access to call services.