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Local loop competition – where to now?

The debate on how to achieve better broadband access networks has started. The two suggestions in last week's Exchange require an unlikely change of heart by government and regulation is not helping.

In last week's Exchange, two radically different methods of achieving more broadband local loop infrastructure were reported. Bill St Arnaud, a Canadian visitor to our shores, proposes government facilitation of multiple local access networks. And, Peter Gerrand proposes structurally separating Telstra to increase investment in local access. Neither close the loop on the debate for me.

The Canadian way

Bill recommends that government(s) fund and facilitate the deployment of new local access networks. Australian governments at all levels generally have no appetite for such funding. None of the Federal grants available seem to offer any support for the development of new local access networks. The prospect of shifting Australian governments from "won't do it" to "will do it" seems slim.

Bill mentions also that in Canada regulation stimulated access competition when telcos were barred from the cable industry for the 25 years to 1995. Australia would not have large cable networks today but for Telstra. The conventional wisdom was that satellite would be the natural platform to deliver PayTV. But when the market in transponders was cornered and MDS licences in capital cities were snapped-up, the PMT (Packer-Murdoch-Telstra) consortium based on cable was set-up. Only then did Optus throw its hat into the cable loop; probably because one its owners then (ie C&W) had seen how Mercury was being bypassed in the UK by new cable networks. This must have been a serious distraction for Optus at the time and an investment which does not seem to me to have much of a future.

The NetCo way

Peter's detailed recommendation [1] envisages direct rather than indirect government investment in new infrastructure. The proposal shares the same funding issue as above because the Government is expected to give up its current equity stake in Telstra plus shell-out cash and bonds to acquire a 100% owned wholesale (only) network infrastructure business from Telstra. And, it is likely that the new entity would require further support in loans to roll-out new local access networks.

I do not believe that the "high wholesale margins obtained in the densely populated parts of Australian cities could subsidise the rollout of broadband access elsewhere" as rates will have to be de-averaged to meet competition. There are already over 20 new local access networks [2] and most of them are in the cities.

The wrong way

Much of the current regulatory focus to increase competition is on line-sharing and the unbundled local loop (ULLS). Several carriers have announced plans to invest in DSLAMs to move away from wholesale ADSL and improve their margins. This approach still relies on Telstra's copper loop. It is not going to deliver new, competing broadband access networks. These may be significant investments from the perspective of the carriers concerned but they are small relative to the cost of deploying new local access infrastructure.

As noted above, there are some carriers who have deployed new local access networks. The notable examples outside the main cities that spring to mind are TransACT and Neighbourhood Cable. Why are there not more?

Perhaps part of the answer is provided by the an experienced putative new entrant from Canada that turned its back on Australia. SaskTel observed that a *“policy that treats facilities based competition and resale competition in the same manner causes inappropriate investment decisions and deprives the economy of the long term benefits of an alternative access network.”* [3]

Also, as I have mentioned before, pricing declared access services to the cost of an efficient entrant will deter an efficient entrant, let alone the rest. For example, the regulated price of ULLS is \$20 [4] compared with Telstra's own estimate of \$35. If Telstra is wrong, there might be some real competition at that price. At \$20 there is none.

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[1] Details in the current issue of the TJA www.tsa.org.au

[2] See “Telecoms Infrastructure in Australia 2002”, ACCC October 2003

[3] SaskTel International, Submission to the Productivity Commission, June 2001

[4] Average of Bands 1 and 2, Core Services Draft Decision, ACCC October 2004