

Economuse, 26 November 2004

Cable competition – who fired the first shot?

There is a common misconception that Optus led cable investment in Australia. We need to put the record straight as it may affect the rollout of fibre.

It seems to be widely believed, and often stated in debates on regulation, that Telstra stepped-up its cable rollout to match Optus Vision and that its prime motivation was the defence of its telephony business. This view was expressed earlier this month by ACCC telecommunications commissioner, Ed Willet, in his speech to the Australian Financial Review's telecoms conference when he said that "it took a very long time for Optus to recover from Telstra's 'competitive response' to the roll-out of HFC cable". However, contrary to popular belief and to Willet's statement, Telstra did not start from behind.

Pay TV by any means

It was always assumed that satellite would be the delivery platform for Pay TV. It has a large addressable market and is cheap (but for satellite auctions). Even Continental Cable, which became a founding member of Optus Vision, took part in the bidding for satellite capacity. And the Senate Committee which in 1992 reviewed the legislation ending the moratorium on pay TV guaranteed two channels on the satellite for the ABC.

Australis Media obtained not only the satellite capacity but also announced in July 1994 that it had microwave (MDS) licences in the major capital cities; leaving cable as the only competitive delivery option. At that point, the Packer-Murdoch-Telstra consortium (PMT, which also included Channel Seven) already existed.

Telstra's Annual Report for 1993-94 (ie before the launch of Optus Vision Mark I in September 1994) says "The Board approved an investment of \$710 million which will make available our fibre optic and coaxial cable network to 1.1m homes by the end of 1996. While the initial use of this highway will be Pay TV..."

Where was Optus Vision?

In September 1994, Optus announced a joint venture with Channels Nine and Seven and Continental Cable of the US to build a \$3 billion aerial cable system offering pay TV and local phone calls to three million Australian homes by 1998. The biggest surprise was that it proposed to build a closed network (ie access by invitation only). At this point, Telstra had already filed a basic carriage service tariff for access to its underground cable with Austel and was negotiating access with Australis. Once it became clear that cable could have an access holiday to 1997 and maybe 1999, Telstra followed suit and withdrew its tariff.

Another surprise was the defection of Channel Seven as it was part-owned by both Telstra (10 percent) and News Corporation (15 percent). Since Channels Seven and Nine

controlled pay TV rights to major sports events, their defection was a bitter blow to the rump of PMT.

The announcement also caused some angst in the Optus boardroom up to May 1995 when its budget for 1995-96 was approved, allowing the start of the \$3 billion cable roll-out. After all, Optus had barely been in business for two years (mobiles and long distance competition began in June and December 1992 respectively) and was still in red ink. And, Bob Mansfield had “consistently stated that Optus was not interested in pay TV” (Sandy Plunkett, BRW, 13 August 1995).

Where is cable now?

It looked like Optus had a winning value proposition. “Here is the best package in pay TV services, and while we’re here, did you know we can give you a lower price on a local telephone call? How good a sales pitch is that?” (Geoff Cousins, head of Optus Vision, in BRW cited above). But, other providers found that they could achieve a single-bill value proposition reselling Telstra local calls and access and address a larger market. So Optus, eventually, followed. Just as, more recently, Optus now resells Telstra’s ADSL services rather than relying only on its own cable or Telstra’s unbundled local loop. Both Optus and Telstra stopped building-out cable some years ago, although Telstra has just made a significant investment in digitising its cable services. There is now little differentiation in content across pay TV services, which may also be resold.

Fibre to the brave

So, I repeat my assertion in the previous column of Economuse that Optus would not have started rolling out cable but for Telstra. It seems that Telstra is prepared to fire the first shot in the next great race – to cable Australia (or, at least, some of it) with optical fibre. Some argue that it should not be allowed at the start line, in which case the race may be a long time coming.

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