Broadband – how can we break the impasse?

Telstra wants a monopoly on its proposed fibre investment and the Minister wants to ensure open access on new networks. There is a way out of this impasse if we adopt next generation pricing principles.

The Minister in her speech at ATUG said that *"encouraging the roll-out of next generation broadband infrastructure will be a principal focus over the course of this year"* [1]. She knows that while others talk, "*Telstra clearly has the capacity and preparedness"* to roll-out FTTN. But it is not yet prepared to do that.

Why worry? No hurry.
NTT and Verizon are the only major fixed line incumbents who have made major commitments to roll-out fibre. Others like Telstra are happy enough to exploit their copper assets using ADSL while broadband markets are still immature.

There are some wholesale-only deployments of local fibre access. But, note that these are public (municipal or local authority) ventures. They are not undertaken because they are expected to make a profit but because they are expected to aid local economic development. In economic terms, the social benefits (not appropriated by private operators) are key. I doubt that a private operator could make a profitable wholesale-only fibre loop investment.

But, this kind of public investment is not technology-neutral and it may kill-off alternative loop (including wireless and satellite) investments. This is why fourteen states in the USA prevent or hinder municipal participation in telecoms.

ULL a stepping-stone or a door-stop?
DSLAMs applied to unbundled Telstra copper (ULL) do not represent full facilities-based competition. In my view, this is only a higher form of resale and on this approach Australia is more biased against facilities-based competition than European countries [2].

Continuing to encourage DSLAM based competition is not consistent with promoting next generation broadband build-out because it depends upon old generation (copper) assets. Worse, the Minister's hope to have discussions about *"access to fibre well before the ULL begins to make serious in-roads on Telstra's profits"* misses a key point. If ULL undermines Telstra's profits it may also undermine its current capability to roll fibre.

ULL has its place. Copper is ubiquitous and there are places where it will remain the only fixed service. Of course, with de-averaged ULL prices there wont be much anyway outside town.

As the Minister says, there is a case for government capital grants in regional areas for new broadband infrastructure. But the tender should not be restricted to wholesale-only bids. As noted, a private wholesale-only operator is unlikely to be viable long-term.

Do not roll-over for Telstra
A sticking point is that Telstra wants its own investment to provide a point of differentiation so that only its own retail customers enjoy the highest speeds possible on new infrastructure. This is unrealistic. The existing DSLM/ULL investments will become redundant where FTTN is rolled-out. Service providers must then have access to the new fibre access network. Any new broadband infrastructure must be open access. As always, the question is really about price.

A New Deal
If, say, I build a stadium to hold football matches what would I charge the Federal Government for holding the Commonwealth Games there? It would certainly not be just the TSLRIC with an agreed return on capital; which is what the ACCC might decide if the stadium were "declared". Commercially, I would also want the opportunity cost of allowing the Games to be held in my stadium; and that would be the profits foregone on the matches that would have been held there. This is not only a competitive commercial outcome (other stadia would do the same) but also an efficient economic outcome (presumably the ticket office will draw bigger crowds with the Games, so this is a better alternative use).

This approach is currently ruled-out by an Explanatory Memorandum to, I think, the Trade Practices Act. It stands in the way of progress. Opportunity cost is real and can be estimated by the ACCC as easily as marginal costs. This is the true economic approach if we are to get true broadband.

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[1] www.minister.dcita.gov.au/media/speeches
[2] See "What kind of competition do we need?" in Exchange, 10 December 2004

A new monopoly is not the answer
John de Ridder's proposed solution for a next generation network (*Broadband – how can we break the impasse?,* Exc 17 Mar) is really a recipe for a next generation monopoly, argues Ian Slattery.

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John de Ridder's proposed solution for a next generation network (*Broadband – how can we break the impasse?* Exc 17 Mar) is really a recipe for a next generation monopoly.

Telstra would be delighted with such a proposal because it manages to transfer all the unsavoury features of the existing competitive model onto a new technology platform. That is precisely what we don't need. Telstra is a fully integrated and dominant carrier with the capacity to decimate any competing infrastructure. A case in point is Telstra's overbuild of the Optus cable network. It is also evident in a raft of towns where niche players have installed innovative wireless networks only to be chased by Telstra with aggressive fixed line services and pricing. Before competitors turned up Telstra wasn't interested.
The suggestion that DSLAM competition does not encourage new network investment is not supported by the facts internationally. Government policy recognises that in a market dominated by an incumbent which controls key monopoly facilities, competitors must firstly establish a customer base upon which they can then commercially justify further infrastructure investment. It also recognises that some telecommunications networks are and will remain bottleneck or monopoly facilities.

ULL investment, not 'resale'

Mr de Ridder's assertion that ULL investment is simply 'resale' makes no sense. To suggest competitors should be launching into massive investments to install alternative networks before establishing a commercial foothold is naive. Do we really believe that if Telstra faced no competition via DSLAMs that we would be seeing consumers delivered broadband speeds of beyond 10Mbps over copper? Do we really believe that Telstra would even be talking about FTTN if it were not for the impact of competition?

Mr De Ridder says he doubts that a fibre wholesale service would make a profit. Based on what evidence? The bans on municipal fibre in some US states resulted from lobbying by incumbents. An example of this was when Qwest Communications International joined forces with the Utah Taxpayers Association to promote State Senate Bill 66, which sought to limit the way cities spend tax dollars on building telecommunications networks.

The way to break the impasse is to recognise that Telstra's proposed fibre investment is not a new network but a modernisation of its existing copper network. Telstra will be using the same trenches, ducts, pits and exchange buildings. It will still be a bottleneck facility. It should be regulated to allow competitors access on reasonable terms and conditions while providing Telstra a commercial return commensurate with a regulated monopoly facility.

A tortured analogy

Mr de Ridder seems to be suffering from a case of Commonwealth Games fever when he attempts to torture an analogy for telecommunications from a discussion about access to a stadium. In effect, he appears to be saying that if he was the only stadium owner (ie had a monopoly) he should be entitled to charge anything he likes, not a TSLRIC price. In fact, in an economy that values competition, monopoly rents are regulated for the greater good. TSLRIC is a tool regulators use to try to provide a price for access to monopolies that replicates the price in a competitive market.

Furthermore, if Mr de Ridder's stadium was in a competitive market, making at least break even returns, and was seeking to attract the Commonwealth Games on top of its regular business, economic theory says he would be offering use of the facility at marginal cost. And guess what, that is exactly what we see happening to access prices in telecommunications where three or more competitors are offering wholesale access, such as on some intercapital transmission routes.

He is correct in saying that pricing is the key. However, the way to get correct pricing signals is to split the network into elements that can be priced accurately. The problem is that Telstra is completely integrated and does not pay for any elements like the rest of the industry. It can claim that parts of the network are loss-making and no one knows the truth.

Telstra has proven it responds only where there is a competitive threat. If it were not for competition we wouldn't be having this discussion. Protecting competition is vital as we move toward next generation networks. We don't want to create a new Telstra monopoly.

Ian Slattery, general manager regulatory Primus Telecom and chairman Competitive Carriers Coalition.

Ian has not read my column carefully. I am not advocating a virtual monopoly of next generation loop infratsructure. I said that is an unrealistic expectation and not even Telstra harbours that. As it seems we can agree, the key is pricing. My point is that wholesale prices should be judged by what would happen in a competitive market and the stadium analogy suggests that there are opportunity costs which the memo to the TPA ignores to the detriment of us all.