

SEPARATION OR POLICY SEGMENTATION?

From John de Ridder

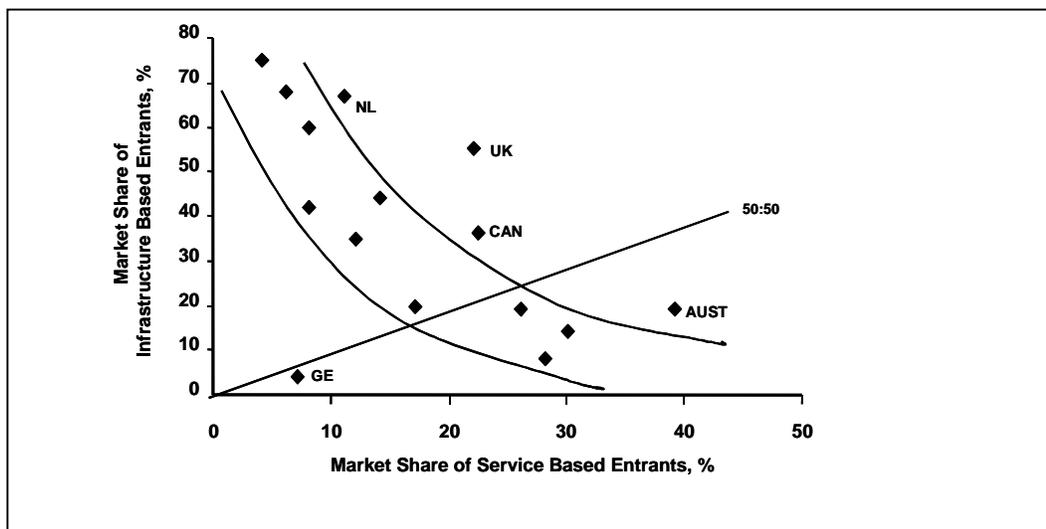
An important dimension in the debate about public policy is the bias towards service-based competition. This is particularly important as new evidence shows that Australia occupies an extreme position on this dimension of policy.

Figure 1 below is based on European data^[1] supplemented by estimates for Australia^[2] and Canada. The vertical axis shows the broadband market share of new entrants using their own local access infrastructure (eg cable or fixed wireless). The horizontal axis shows the broadband market share of new entrants using the incumbent's infrastructure (eg wholesale ADSL, unbundled local loop). The sum of these is equal to new entrants' broadband market share in each country (ie the residual is the incumbent's share).

Most of the European countries fall within the envelope, which suggests an inverse relationship between the two business models with important policy implications. That is, countries where infrastructure-based competitors have high shares of the broadband market seem to have small shares accounted for service based entrants; and vice versa. The 50:50 line shows not only that Australia falls on the service-based side of that line but also that it has the highest market share for service-based entrants of any country. It probably sits above the envelope thanks to the Optus HFC network.

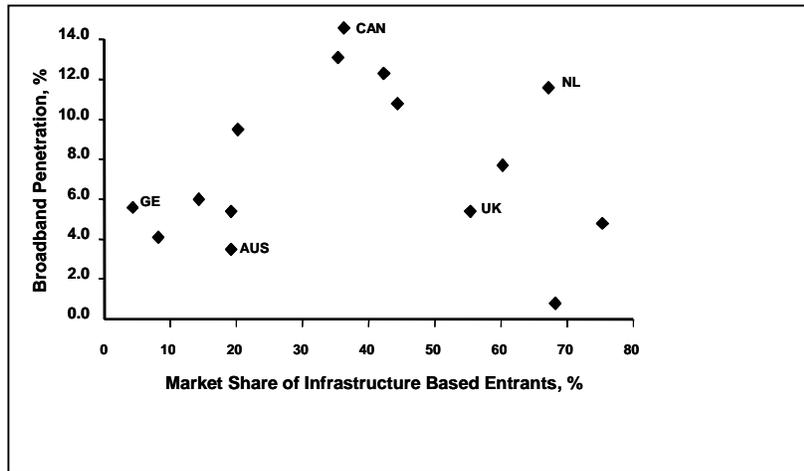
Outliers are always interesting. Germany has the lowest broadband market share accounted for by new entrants (less than 10 per cent). Although it has an extensive cable network, it is not broadband enabled so cable modems play only a marginal role with resold ADSL being the main platform for service-based entrants. The UK and the Netherlands both have cable networks which are broadband enabled and this may help explain why they sit above the envelope^[3].

These findings would be even more important for policy if a bias towards infrastructure rather than service-based competition were also to be associated with higher levels of broadband penetration. In fact, an experienced putative new entrant from Canada turned its back on Australia because '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^[4]'. Figure 2, however, shows that this is not the case looking at market share of infrastructure-based new entrants^[5]. A similar lack of correlation would be displayed if we compared the sum of new entrant shares across both modes of competition with broadband penetration.



Source: John de Ridder (Estimates as at March 2004)

Fig 1 – Market share of Service vs Facility-Based Entrants in Broadband



Source: John de Ridder (Estimates as at March 2004)

Fig. 2 – Infrastructure Shares vs Broadband Penetration

Many commentators such as Peter Gerrand in the previous issue of this journal believe that the structural separation of Telstra to create a 'NetCo' is the key policy lever which should be used to create a level playing field, increase broadband penetration, improve regional equity and increase telecommunications investment. Hopefully, this contribution will widen the debate.

NOTES

- [1]. Bourreau M and Dogan P 'Service-based vs. facility-based competition in local access networks', *Information Economics and Policy*, Vol.16 No.2, June 2004
- [2]. The primary source is ABS '*Internet Activity*', Cat. No. 8153.0, March 2004 with my own estimates of the service versus infrastructure splits, plus '*Status of Competition in Canadian Telecommunications Markets*' CRTC November 2004 for Canada.
- [3]. The Ofcom Phase 2 consultation papers released on 18 November include Annex O, which provides detail on differences in broadband policy which may help explain some of the differences.
- [4]. SaskTel International, Submission to the Productivity Commission, June 2001
- [5]. The broadband penetration rates come from the OECD table for December 2003 published in June 2004.

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