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Local broadband – a magic bullets solution?

Is improved broadband access a local issue? At every level, access pricing is the real issue.

Recently, Joshua Gans argued (based on the US model) that if Telstra shed its Foxtel and cable assets it should be allowed to invest in broadband without regulatory intervention [1]. Now, he argues that the focus on national solutions to broadband is based on “demonstrably false” premises: “Broadband has more in common with garbage collection than defence” [2]. Instead of one magic bullet, he proposes local solutions will provide many magic bullets to spur broadband investment. I think not.

A straw man

Gans claims that national plans are falsely premised on broadband applications and investments having to be national in scope. This is a straw man.

On the demand side, it is true that the major application of communications is social interaction. But, this does not mean that broadband applications and content will be local. In voice telephony, local traffic is ten to twenty times higher than international traffic on minutes and calls respectively. With internet traffic, over seventy percent of consumer downloads come from overseas; most of that from the USA. And, customers of YouTube and MySpace inhabit a global village so content is not local for them.

A potential problem that Gans does recognise is asymmetric speeds. If (and only if) social broadband interactivity is important – and I do not think it is apart from VoIP and games – then ADSL is very limiting (but not for music and video).

On the supply side, just because the least cost technology depends upon local circumstances, it does not follow that “investment decision making needs to be devolved”. Correct premise, wrong conclusion.

There is a (not necessarily effective) national policy to improve Australia’s international ranking on broadband take-up, speeds and prices. But investment plans are regional (eg the Federal Government subsidies), metropolitan (eg the G9 and last Telstra FTTN plans) or in selective markets (eg Neighbourhood Cable) and technologies (eg Astar). The focus on broadband is on many levels (national, state and local) which are not mutually exclusive.

The real issue

It is generally recognised, I think, that significant broadband infrastructure investments need to generate returns from a variety of sources (ie economies of scope from “triple

play”). I doubt that a commercial, wholesale-only broadband access network is viable; at least, not with current access pricing principles.

The problem of pricing access to new networks is illustrated neatly with a hypothetical pay TV roll-out [3]. With a monopoly and an equal chance of success (+\$10m) and failure (-\$8m), the expected pay-off is +\$1m and consumers get a service whatever the outcome. If providing third-party access dilutes the value of success (but not failure) so that the expected pay-off is negative, no investment will occur.

In the Gans scenario, the local authority would put the investment to competitive tender and facilitate access to ducts. Presumably, it would be an open-access network so the rate-payers will have to subsidise the investment. There are some pilot schemes of this nature (eg Aurora and TasCOLT) but I doubt that these will multiply to make national efforts on promoting broadband redundant.

Another solution is an “access holiday”, which is an option still being considered in Germany. But, there are other more pro-competitive solutions. My preference is for access pricing based on efficient component pricing. Yet another possibility is sharing the investment risk; as the G9 is proposing [4].

A possible downside

One of the few advantages that Australia has compared with other countries is strong central control of telecoms policy. Do we want to give USO responsibility to local bodies? Look at the USA with its multiple and over-lapping jurisdictions. While encouraging state and local governments to promote broadband investments, we should not devolve policy and regulation. Communications is not like garbage collection.

However, we can agree that “if we get the regulatory settings right (in terms of access) we will get local market solutions right in terms of provision, competition and procurement”. Starting from different premises, we reach the same conclusion.

John de Ridder is a consulting telecommunications economist with expertise in competition, pricing and regulation. www.deridder.com.au

[1] Joshua Gans and Jerry Hausman “T3 must ring in rule changes”, AFR, 7 August 2006

[2] AFR 12 December and paper for CEDA

[3] From Stephen King and Rodney Maddock “Unlocking the Infrastructure” p120

[4] Allen Group “A competitive model for national broadband upgrade”, July 2006.