

ACCC telecommunications reports

2000–01

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This publication contains three reports.

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| Report 1. | Telecommunications competitive safeguards |
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4 March 2002

Senator the Hon. Richard Alston
Minister for Communications,
Information Technology and the Arts
Parliament House
CANBERRA ACT 2600

Dear Senator Alston

The Australian Competition and Consumer Commission (the Commission) is required under the *Trade Practices Act 1974* (the Act) to provide three annual telecommunications reports to the Minister for Communications, Information Technology and the Arts. Under:

- sub-section 151CL(1) of the Act the Commission is required to review and report each financial year on competitive safeguards within the Australian telecommunications industry;
- paragraph 151CM(1)(a) of the Act the Commission is required to monitor and report each financial year on charges paid by consumers for telecommunications services; and
- paragraph 151CM(1)(b) of the Act the Commission is required to report each financial year on Telstra's compliance with the price control arrangements.

In order to facilitate the Government's and Parliament's consideration of telecommunication matters, the Commission has decided to bring these reports together for the 2000-01 financial year. Accordingly, please find enclosed a copy of a report which combines the Commission's three reporting requirements on competitive safeguards, charges paid by consumers for telecommunication services and Telstra's compliance with the price control arrangements.

The Commission notes that the reports for the 2000-01 financial year contain a number of key messages and implications for the telecommunications industry. Some of these are highlighted below.

Telstra price control compliance report

For the 2000-01 report, Telstra complied with its price control arrangements for the financial year. However, in providing information to the Commission with regard to its compliance, the Commission is concerned that Telstra is increasingly employing methods to determine price movements that are inconsistently applied across the various services, without proper



explanation. The Commission is of the view that the present methodology allows Telstra a high degree of discretion in evaluating price movements. It would appear that Telstra has taken full advantage of this generous discretion to such an extent that some doubts have been raised as to the accuracy of data supplied by Telstra for the 2000-01 reporting requirement.

In addition, the Commission notes that despite sharp rises in line rental charges, Telstra's carry-over credit to the 2001-02 financial year increased strongly from 2.2 per cent from the 1999-00 financial year to 3.8 per cent in the 2000-01 financial year. While there are concerns with regard to the substantial size of the carryover, it would appear that Telstra would still have complied with its price control obligations with little difficulty for the 2000-01 financial year. However, the significant carryover is likely to give Telstra latitude to increase prices in the 2001-02 financial year without offering comparable offsetting reductions in call charges.

Therefore, in light of these concerns, the Commission intends to review and implement necessary changes to the methodology that will apply to the next financial reporting period (2001-02). The Commission considers that credible price control reports are essential for it to exercise sound regulatory and economic decisions, and as such, it is vital to ensure that the integrity of this reporting requirement is protected and enhanced.

Telecommunications competitive safeguard report

During the 2000-01 financial year, the Commission was heavily involved in a number of anti-competitive conduct and consumer protection investigations, reflecting the continuing pattern of increasing complaints with regard to these matters in the telecommunications industry.

The Commission continued to use its information-gathering powers in order to perform its functions and exercise its powers under Parts XIB or XIC of the Act. In addition, the Commission was involved in a number of access-related activities which, among other things, included the development of pricing principles for particular services, and the arbitration of access disputes. The Commission also exercised its power under the Telecommunications Act with regard to number portability for telecommunications services, and other matters.

It also participated in self-regulatory processes, continuing its involvement in a number of organisations, including in the Australian Communications Industry Forum (ACIF) code committees, the Telecommunications Access Forum (TAF), the Numbering Advisory Committee and the .au Domain Administration Advisory Panel.

It is noted that a general overview of the state of competition in the telecommunications industry is provided within the Telecommunications competitive safeguards report for the first time in the 2000-01 financial year. This overview provides a discussion on the effectiveness, or lack thereof, of competition in different telecommunications markets, and the emerging competition issues likely to affect the industry in the future. In particular, the overview notes concerns over the state of competition in a number of telecommunications markets, including local call services, international and national long distance and fixed-to-mobile services. The overview comments, however, that the market for other mobile services seems to be more effectively competitive than many other traditional telecommunications markets.

The overview also observes that further challenges are likely to arise in the near future such as the effect of the convergence of services, and the increase in next generation infrastructure deployment.

Changes in the prices paid for telecommunications services in Australia

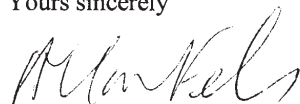
This report provides a number of findings regarding how the prices for various services have changed over recent years. Some of the main findings are:

- the price of a full basket of telecommunications services decreased by 21.4 per cent between 1997-98 and 2000-2001. The price decrease moderated to 8.9 per cent over the 2000-01 financial year;
- over the period from 1997-98 to 2000-01, the price of the full basket for business consumers decreased by 22.6 per cent, which is greater than the price decrease for residential consumers of 17.4 per cent over the same period. In the 2000-01 financial year, the price of the business basket (11.4 per cent) continued to decrease at a faster rate than the price of the residential basket (5.6 per cent);
- in relation to individual services within the overall basket, the Commission observed that the largest price decrease between 1997-98 and 2000-01 involved the price of international calls, which decreased by 54.9 per cent on average for the industry as a whole. In comparison, the smallest price decrease over the same period involved the fixed-to-mobile services where the price decrease by 18.1 per cent on average for the industry as a whole. For the 2000-01 financial year, the largest decrease occurred in the price of local calls which decreased by 18.6 per cent on average for the industry as a whole, whilst the smallest decrease once again occurred in the price of fixed-to-mobile calls, with a price decrease of 5.9 per cent on average for the industry as a whole; and
- in comparing the trend in prices in capital and non-capital city areas for the period between 1996-97 and 1999-00, the Commission notes that the price of a range of traditional telecommunications services decreased at a faster rate (25 per cent) in the city areas than for non-capital areas (22.4 per cent) on average for the industry as a whole.

The Commission considers that the price information contained in this report provides a useful insight into the pricing behaviour across the telecommunications industry. It continues, therefore, to be an effective instrument to assist the Commission in carrying out its regulatory work.

As you are aware, sub-sections 151CL(5) and 151CM(3) of the Act require you to table these reports in each House of the Parliament within 15 sitting days of that House after receiving this report.

Yours sincerely



Professor Allan Fels AO
Chairman

Overview

The Australian Competition and Consumer Commission (ACCC) is an independent statutory body responsible for competition regulation of telecommunications within Australia. Its responsibilities include regulating access to telecommunication services declared by it and enforcing the telecommunications-specific anti-competitive conduct provisions, under Parts XIB and XIC of the *Trade Practices Act 1974*, respectively.

The ACCC also has functions and responsibilities under the *Telecommunications Act 1997*, including the power to direct its co-regulator, the Australian Communications Authority (ACA), regarding electronic addressing; to develop an interconnection standard; to hold a public inquiry; and to mandate number portability. In addition, under the *Telecommunications Act*, the ACCC has the power to make facilities access codes and is responsible for enforcing the international rules of conduct.

The ACCC carries out these responsibilities, where possible, by encouraging self-regulatory processes. This is consistent with the general policy guiding the telecommunications regulatory provisions as provided in s. 4 of the *Telecommunications Act*. However, where intractable disagreements arise or anti-competitive conduct occurs, the ACCC will use its regulatory powers efficiently and effectively.

The ACCC currently has three annual telecommunications reporting requirements under the *Trade Practices Act*.

- Part XIB, Division 11, sub-section 151CL(1) of the Act requires the ACCC to review and report each financial year on competitive safeguards within the Australian telecommunications industry.
- Part XIB, Division 12, paragraph 151CM(1)(a) requires the ACCC to monitor and report each financial year on charges paid by consumers for telecommunications services.
- Part XIB, Division 12, paragraph 151CM(1)(b) requires the ACCC to report each financial year on Telstra's compliance with the price control arrangements.

The ACCC has combined all three annual reporting requirements into this one publication to facilitate the Government's and Parliament's consideration of telecommunication matters.

Glossary

ABS	Australian Bureau of Statistics
ACA	Australian Communications Authority
ACCC	Australian Competition and Consumer Commission
ACIF	Australian Communications Industry Forum
ACT	Australian Competition Tribunal
ADC	access deficit contribution
ADSL	asymmetrical digital subscriber line
AMPS	analogue mobile phone system
ATM	asynchronous transfer mode
AUP	acceptable user policy
Basic access	the line rental or annual charge paid by consumers for access to a PSTN network
BCS	basic carriage service
CAN	customer access network
Carrier	holder of a carrier licence granted under the <i>Telecommunications Act 1997</i>
Carryover	if Telstra makes greater reductions in prices than is required to meet the price cap for the reporting year, the resulting price cap credit may be carried over into the following year
CDMA	code division multiple access (an access technique for digital wireless communications, including mobile phone and satellite services)
Community call	calls charged at a cheaper rate than standard national long distance calls — for calls between non-adjacent charging zones in metropolitan areas and between metropolitan and particular country zones and other zones that have 'community access' to each other
CPI	consumer price index
CRU	Communications Research Unit (a research unit within the Commonwealth Department of Communications, Information Technology and the Arts)
CSP	carriage service provider

GSM	global systems for mobiles (wireless network technology)
GST	Good and Services Tax
HFC	hybrid fibre-coaxial cable
IAP	internet access provider
ISDN	integrated services digital network (ISDN services enable end-users to send and receive information at faster speeds and with greater reliability than is possible using the standard PSTN carriage service)
ISP	internet service provider
Leased line	transmission capacity along a particular route in a carrier's network which is leased to a single customer end-user
Line rental	charge for the ongoing supply of a standard telephone service at a location required by a customer
LTIE	long-term interests of end-users
Metropolitan	inter carrier charge area for Sydney, Melbourne, Brisbane, Perth and Adelaide
MNP	mobile number portability
OFTEL	Office of Telecommunications (UK telecommunications regulator)
Pastoral call	calls charged at a cheaper rate than standard national long distance calls - for calls within and between certain charge zones in country areas
PSTN	public switched telephone network (standard fixed-line telephone network)
RKRs	record keeping rules
SMS	short message service
TAF	Telecommunications Access Forum
ToLI	telecommunications on-line initiative
ULLS	unconditioned local loop service
XDSL	refers to the 'family' of digital subscriber line services (i.e. ADSL, HDSL, etc.)