

ACCC telecommunications reports

2002–03

This publication contains three reports:

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| Report 1 | Telecommunications competitive safeguards |
| Report 2 | Changes in the prices paid for
telecommunications services in Australia |
| Report 3 | Telstra's compliance with price control arrangements |



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31 May 2004

The Hon Mr Darryl Williams AM, QC, MP
Minister for Communications, Information Technology and the Arts
House of Representatives
Parliament House
CANBERRA ACT 2600

Dear Minister

The Australian Competition and Consumer Commission (the ACCC) is required under the *Trade Practices Act 1974* (the Act) to annually review and report on:

- competitive safeguards within the Australian telecommunications industry (sub-section 151CL(1) of the Act);
- changes in prices paid by consumers for telecommunications services (sub-section 151CM(1)(a) of the Act); and
- Telstra's compliance with the price control arrangements (sub-section 151CM(1)(b) of the Act).

Enclosed are the telecommunications reports for financial year 2002-03. As you are aware, subsections 151CL(5) and 151CM(3) of the Act require that within 15 sitting days of receipt of these reports you table them in each House of Parliament.

These reports have been provided to you later than anticipated due to a delay in the finalisation of the report into Telstra's compliance with the price control arrangements. This was due to delays in obtaining all the necessary information from Telstra. In order to ensure that future telecommunications reports are provided as soon as practicable, the Commission intends to provide you with the report on Telstra's compliance with the price control arrangements separately as of next year if the processes around this report cannot be streamlined. The Commission is currently working with Telstra to improve these processes.

I have highlighted the key messages in each report below.

EXECUTIVE OFFICE



Report 1 - Telecommunications competitive safeguards

The ACCC assesses that, while there has been the entry of many new carriers since the opening of the telecommunications markets in 1997, competition has not developed as extensively as was expected. Of the carriers to emerge in that time, many operate in niche markets and have relatively few directly connected customers. Competition has developed unevenly across different areas of Australia and across different services.

Contrary to expectations when the regime was put in place, this has meant that more rather than less regulation has been required over time.

In several markets, effective competition is limited principally to services or access-based competition, with service providers competing on the retail level only. The ACCC considers that such competition, while undoubtedly beneficial, is not as effective in the longer term as facilities-based competition in driving efficiency, wider service choice and price competition.

More so than in previous years, the ACCC considers that there was evidence of consolidation. There was some slow down in investment expenditure by new carriers in the fixed-line customer access market. In the market more generally, there was a drop off in price reductions and, in some cases, price increases. Telstra continues to account for the vast majority of directly-connected fixed-line services. Further, Telstra and SingTel Optus combined account for around 99 per cent of these services.

In terms of the ACCC's work in the 2002-03 financial year, the report provides a detailed overview of activities undertaken by the ACCC in fulfilling its regulatory functions.

Report 2 – Changes in prices paid for telecommunications services in Australia

The ACCC assesses that the overall average price paid by consumers for telecommunications services increased in real terms during the 2002-03 financial year. For the first time since the base year in 1997-98, there were increases in the overall average prices paid by consumers of PSTN and mobile services.

The average price paid for PSTN services increased by 1.0 per cent during 2002-03. This was driven by increases in average prices paid by residential and small business consumers, with consumers in the other business category experiencing an 8.6 per cent reduction.

In terms of basic PSTN access, the average price paid increased by 12.4 per cent. While increases occurred across all consumer groups, the most significant increases occurred in the residential and small business groups. In terms of per call services, the average price paid decreased across all user groups, with the exception of residential fixed-to-mobile services. Average reductions in prices paid for these services were generally smallest for residential consumers and largest for other business consumers.

The ACCC believes that the disparity in price movements for different user groups within the fixed line market may indicate that other business consumers are benefiting more from competition than their small business and residential counterparts.

With regard to mobile services, the overall average price paid by mobile consumers increased by 0.9 per cent. This increase was driven by an overall increase of 1.1 per cent in the average price paid by GSM consumers, while the average price paid for CDMA services decreased by 2.3 per cent. The relative disparity between changes for GSM and CDMA services may reflect network operator strategies to increase the existing low level of CDMA subscribers.

Overall, the average price paid for mobile services fell for both types of prepaid users, whilst only falling for CDMA postpaid users. This may indicate that mobile carriers continue to compete more aggressively to attract new prepaid subscribers to their networks.

Report 3 – Telstra's price control compliance

The Commission is satisfied that Telstra has adequately complied with its price-caps for each of the three baskets of services. Telstra has also complied with the metropolitan/non-metropolitan pricing parity requirement for residential, charity and business customers and with its other price control obligations.

The dispute between Telstra and the ACCC in relation to the carry-in amount from 2001-02 for the second basket of services has been resolved with Telstra agreeing not to use the disputed credits in the 2003-04 second basket price cap. The Commission agrees that this is the appropriate means to ensure that the benefits of the price control arrangements are passed on to end-users.

The Commission notes that although Telstra provided an initial 2002-03 price control report to the ACCC on 30 September 2003, detailing its compliance with the price control arrangements, it also lodged a value claim for quality improvements to the line rental service. Telstra provided its final report on 26 April 2004 following the ACCC's assessment of the value claims that Telstra had made and resolution of some methodological differences with the ACCC in relation to the September report. Final audit clearance of Telstra's report was not obtained until the end of May.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Graeme Samuel', with a stylized flourish at the end.

Graeme Samuel
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 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
ADC	access deficit contribution
ADSL	asymmetrical digital subscriber line
ATM	asynchronous transfer mode
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)
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
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
PSTN	public switched telephone network (standard fixed-line telephone network)
RKRs	record keeping rules
SMS	short message service
ULLS	unconditioned local loop service
XDSL	refers to the 'family' of digital subscriber line services (i.e. ADSL, HDSL, etc.)