



8 September 2014

MTAS FAD Inquiry
Australian Competition and Consumer Commission

Via email: MTASFADInquiry@acc.gov.au

ACCAN thanks the Australian Competition and Consumer Commission for the opportunity to contribute to its Mobile Terminating Access Service (MTAS) final access determination consultation. Developing appropriate cost-based pricing for mobile termination is the best way to deliver long term benefits to consumers. In line with the legislative framework, the model selected should aim to deliver competitive offers for consumers while ensuring business can gain a reasonable rate of return for investment for continual network improvement.

Mobile market changes since the 2011 MTAS FAD

Demand for voice, SMS and data

As outlined in the discussion paper demand for mobile voice and SMS volumes have both increased and this trend is likely to continue. Due to economies of scale this steady increase in volume is also likely to lead to reduced termination costs. The paper also notes data usage over mobile networks has greatly increased over the last determination period. ABS data shows wireless data usage almost tripled between 2011 and 2013.¹ To cope with this increase network investment has primarily focused on improving data capacity. As a result the portion of networks costs associated with voice and SMS termination has likely decreased. To reflect these demand increases we would expect to see the MTAS rate continue to fall from its current rate of 3.6cpm.

4G Network rollout

Supply side factors such as technological improvements are also likely to have an impact on the efficient cost of mobile termination. Vodafone has announced it will be launching voice over LTE (4G) early within the next declaration period with plans for a 2015 rollout.² Optus and Telstra are both reportedly testing the technology but have not yet released a timeline to deployment.³ The different technology and timeframe for rollout poses some difficulty in developing a model which will adequately reflect cost for each network. Given this uncertainty it may be worthwhile revisiting the MTAS FAD within the new declaration period.

¹ ABS, 2014, '8153.0 – Internet Activity, Australia, December 2013', April 2014

² Vodafone, 2014, 'Vodafone to build network of the future' available at: <http://www.vodafone.com.au/doc/VodafoneToBuildNetworkOfTheFuture.pdf>

³ ZDNet, 2013, 'Optus joins Voice over LTE race', available at: <http://www.zdnet.com/au/optus-joins-voice-over-lte-race-7000023602/>

Emerging issues in network termination

Net neutrality

As we move to 4G IP based systems focus should shift to the level of competition in peering and transit of data. In this context distinguishing between voice and data, as is currently the case, may become less relevant. Rather, competition concerns are likely to hinge on considerations of net neutrality and whether certain types of traffic are being discriminated against. As we shift to IP based systems, we call on the ACCC to review the appropriateness of the current MTAS in promoting competition.

SMS spam

In previous submissions, providers have expressed concern about the potential for lower SMS interconnection prices to lead to increases in SMS spam. Given the control network operators maintain over access, this appears to be easily mitigated. However it may be prudent for the ACCC to coordinate with the ACMA to raise awareness of SMS spam reporting methods. Empowering consumers to take action and report spam, coupled with robust enforcement action, is likely to send a strong message to would-be spammers.

Fixed-to-mobile (FTM) pass-through

ACCAN notes the difficulty in developing a model which promotes pass-through of MTAS reductions to consumers. The problem of low pass through stems from a lack of competitive pressure in the fixed-to-mobile market. Telstra as the major supplier of fixed line phone services has profited from this situation. As the consultation paper states “the reductions in Telstra’s average FTM call rates have been, in most years and in total, less than the reductions in MTAS rates over the period”.⁴ Ultimately the solution is likely to come in the form of more competition in this market. The NBN, while still in its infancy, is one avenue for access seekers to enter the market on more equitable terms.

The ACCC’s research shows the difference between reductions in the MTAS rate and FTM call prices appears to be narrowing. At this time we are wary of using MTAS to solve competition issues in the fixed line market. Enforcing pass-through would in effect create a level of retail price control. This level of intervention is likely to result in unintended consequences which may not serve the long term interests of consumers. As a result ACCAN prefers an approach of shifting focus away from mandated FTM pass-through to ensuring the NBN creates the right competitive pressure in fixed line services.

Pricing model

ACCAN believes a cost based model remains consistent with the legislative requirements of the *Competition and Consumer Act*. Any approach should be responsive to consumer demand, while ensuring business can gain a reasonable rate of return for reinvestment.

⁴ ACCC, 2014. ‘Mobile terminating access service – Final access determination discussion paper’, August 2014, p.22

Different pricing approaches for different services

For the reasons laid out in the consultation paper, we do not see a need for a different pricing approach between FTM and mobile-to-mobile or voice services and SMS. This is a practical response to pricing which does not require the development of multiple models.

Impact of small changes in MTAS

In considering the merits of more or less precise models, it should be kept in mind that although fractions of a cent differences appear minor, when extrapolated to the total size of the voice and SMS market they can be significant. For example, there were 44 billion mobile call minutes in the 2013 financial year.⁵ So even a fraction of a cent decrease, if passed on to consumers, could lead to tens of millions saved across the economy.

Early adoption of a 4G model

During this transition phase there may be a period when elements of both 3G switch based and 4G IP based networks are in operation. The development of multiple models to deal with this may prove costly and cause problems in creating the right incentives for investment. Moving to a 4G based model sooner may promote adoption of this more efficient technology. Aside from potential cost savings the long term benefits to consumers of 4G include high definition call quality and significantly shorter call connection times.⁶ Other than ongoing coverage and capacity improvements these are likely to be important advances to many consumers.

If industry provides information that 4G roll-out is likely within the next one to two years then there is merit in using international benchmarking as a guide to MTAS pricing in the short term. This will save the uncertainty and cost related in producing two models within a relatively short space of time. Even if international benchmarking is not used to determine pricing, provided relevant comparisons are made, it may still be useful to check the final pricing against international standards. Ultimately the ACCC should be guided by the 4G roll-out schedules of the network operators.

Long run incremental costs (LRIC) methodologies

A long run incremental cost model is likely to produce positive competitive outcomes. In the current market the pure LRIC model holds particular appeal. As the findings of the European Commission and UK telecommunications regulator Ofcom have found, this model is appropriate when there is asymmetry between market shares and traffic flows.

Since 2010 Telstra mobile subscriptions have grown from 10.5 million to 15.8 million, meanwhile Vodafone has gone backwards, while Optus is maintaining its size.⁷ Vodafone, albeit after a large customer revolt over poor network performance, has lost 2.5 million customers since 2010.⁸ In the same timeframe Optus' mobile customer base has increased slightly up from 8.9 million in 2010 to

⁵ ACCC, 2013, 'Telecommunications reports 2012-13', p.18

⁶ Vodafone, 2014, 'Vodafone to build network of the future' available at:

<http://www.vodafone.com.au/doc/VodafoneToBuildNetworkOfTheFuture.pdf>

⁷ Telstra, 2010, 'Telstra Annual Report 2010', p.16; ZDNet, 2014, 'Telstra adds another 739,000 to mobile base', available at: <http://www.zdnet.com/au/telstra-adds-another-739000-to-mobile-base-7000026275/>

⁸ ZDNet, 2013, 'Vodafone Australia customer numbers slide by another 600,000', 12/11/2013, available at: <http://www.zdnet.com/au/vodafone-australia-customer-numbers-slide-by-another-600000-7000023117/>

9.49 million in 2013.⁹ However it has lost 160,000 subscribers in the last 12 months and this is during a time when the total size of the market is growing.¹⁰ This data, coupled with information in the consultation paper about asymmetric traffic flow, indicates that a pure LRIC approach is well suited to the current mobile market.

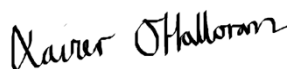
There is also merit in developing a pricing approach which also includes common and organisational costs (TSLRIC and TSLRIC+ approaches). However ACCAN is particularly concerned about the consumer ease and competition implications of on and off-net pricing these approaches are more likely to create. As such our preferred model is the pure LRIC approach.

Conclusion

It is likely changes in both demand and supply factors since the last determination have continued the decline in MTAS costs. ACCAN would expect to see this reflected in whichever model is developed. An emerging issue in this declaration period is the impact of the development of IP based systems on net neutrality. ACCAN would like to see consideration of this competition issue in future determination inquiries.

Overall we believe the final pricing model should be responsive to the roll-out timetables for 4G technology. We see little benefit in producing multiple costing models within a short period of time. Given the current asymmetry in market share and flow we believe a pure LRIC model may be best suited to the long term interests of consumers.

Sincerely,



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⁹ ZDNet, 2013, 'Optus loses customers amid 4G growth' available at: <http://www.zdnet.com/au/optus-loses-customers-amid-4g-growth-7000023173/>; SMH, 2010, 'Optus subscriber numbers dip', available at: <http://www.smh.com.au/business/optus-subscriber-numbers-dip-20101110-17nnr.html>

¹⁰ SMH, 2014, 'Telstra to cut prices to take on Optus, says Credit Suisse analyst', 04/06/2014, available at: <http://www.smh.com.au/business/retail/telstra-to-cut-prices-to-take-on-optus-says-credit-suisse-analyst-20140604-39iem.html>