

21 September 2017

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Dear Clare

## **Response to Telstra and Optus/Analysis Mason Comments on Frontier Economics report**

As you know, we act for Vodafone Hutchison Australia Pty Ltd (**VHA**).

We refer to the email from C Xie to S Alexander of Monday 18 September in which the ACCC indicated that it was happy for VHA to provide a response, from Frontier Economics, to the comments by Telstra and Optus/Analysys Mason on the Frontier Economics' report *The Consumer Impact from Domestic Roaming*.

The ACCC indicated that it would appreciate if VHA could provide this by the end of Thursday 21 September. As with other submissions, we understand that the ACCC will publish the Frontier Economics' response on the ACCC's website.

### **1 Frontier Economics' response**

Please find **attached** the Frontier Economics' response. This response is provided on the same basis as the limited submission of VHA enclosed with my letter of 16 June 2017.

As you may appreciate from our discussion with RBB Economics, both Telstra and Optus have misunderstood fundamental aspects of the Frontier Economics model. Their criticism is misplaced.

Frontier Economics has highlighted in its response that:

- (a) the model takes the observable state of competition in the market today and analyses how that market would react to a change in one variable of competition (namely equalising geographic coverage), while preserving all other variables (including any "other" competitive advantages of Telstra asserted by Telstra and Optus);
- (b) the model measures market outcomes, particularly with respect to retail prices, by assessing the outcome if the regional market shares of the three MNOs were redistributed in a manner consistent with the current distribution of urban market shares between the three MNOs (therefore, any claimed "other" competitive advantages unrelated to Telstra's coverage are already accounted for, because the MNO market shares in urban areas already capture the effect of such "other" competitive advantages); and

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- (c) the model, in effect, demonstrates what would happen if the “less than effective” competition in regional Australia were to increase to the “reasonably effective” level of competition that the ACCC found to exist in urban areas in its Draft Decision.

As previously discussed with RBB Economics, Frontier Economics has made reasonable and conservative assumptions. Telstra’s criticism that the model does not reflect Telstra’s actual costs is disingenuous, given Telstra has refused to disclose its costs for independent scrutiny. Frontier Economics’ conservative approach has likely understated the welfare gains from declaration.

## 2 Concerns regarding delay

Telstra’s submission was dated 6 July 2017. The ACCC only published that submission on 15 September 2017. We appreciate that the ACCC has given Frontier Economics an opportunity to respond. However, we express concern that Frontier Economics has only been given 4 days to respond, in circumstances where the ACCC received Telstra’s submission some 11 weeks ago.

## 3 Roy Morgan research of September 2017

Lastly, we alert the ACCC to new research published by Roy Morgan Research on 15 September 2017.<sup>1</sup> Mr Norman Morris, Industry Communications Director, Roy Morgan Research commented:

“In addition to measuring satisfaction ratings, which are a key factor in customer retention, we have also analysed the factors involved when choosing a mobile phone service provider. This is an area where there are major differences between providers, for example, **customers who choose Telstra overwhelmingly do so for reasons relating to better coverage, whereas other major providers are selected primarily for price related reasons.** Roy Morgan also has very detailed data covering twenty factors relating to choice of provider and extensive coverage on many aspects of mobile phone usage.” *[emphasis added]*

We assume that the ACCC is monitoring and recognising new evidence as it becomes available. As the ACCC will appreciate, this evidence supports VHA’s earlier submissions.

Please do not hesitate to contact us if you wish to discuss any aspect of this letter.

Yours faithfully



Dr Martyn Taylor  
Partner  
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<sup>1</sup> See, <http://www.roymorgan.com/findings/7332-mobile-phone-satisfaction-july-2017-201709141647>.