CTIN Submission on Implementation Issues for GSM Termination Services

The ACCC has requested that CTIN outline its views in relation to specific matters surrounding the implementation of the Commission's price intervention procedures with respect to GSM termination services. This report provides that outline. It deals with the issues in the order they are raised in Attachment B of the ACCC's request.

1. Date of the initial starting point

The Commission asks CTIN to respond to 2 specific matters:

- Is 1 July 2001 considered an appropriate date from which the lowest price should be taken?

The date is appropriate for 2 reasons. Firstly, it fits neatly with the Commission's preference for 6 monthly monitoring. If started on 1 July, reporting would coincide with the end of the calendar and financial years and this will help economise on reporting costs. Secondly, using the date of the final report as a retrospective starting point means that operators do not have the opportunity to distort the lowest price so as to flatten or otherwise alter the subsequent glide path.

- Under a period-on-period approach is it considered appropriate that the starting price for any potential access disputes notified in future should be the most recent access price agreed between the access seeker and the access provider?

This seems to be an appropriate starting price. However, we would note that that price might reflect monopoly or monopsony powers and, under such circumstances of uneven negotiating positions, it might be something of a misnomer to call it an agreed price.

2. Time period for assessing retail price movements

This question is directed predominantly to carriers and CTIN has no comment other than that the Commission's reasoning appears to be sound ie that 6 months is a time period not so short as to be administratively over-burdensome and not so long as to limit the pressure for downward revisions.

3. How to determine the average price per minute and retail price movements

a. A yield versus a 'retail basket' approach

CTIN agrees that the retail basket approach implies administrative burdens and lags in reporting which are avoidable with the yield approach. In any case, as the two approaches will measure differently changes in retail prices for the same services and will likely track each other closely over the longer term.

CTIN cannot make sense of Telstra's comment that it matters whether the yield approach uses revenue per minute or revenue per subscriber; both will measure changes in averages and will track together. We say that having not had access to Telstra's full submission but note that it is also the position adopted by the Commission.

b. Are the services proposed for inclusion in the revenue and minutes of use calculations appropriate?

CTIN believes they are and is supportive of the Commission's reasoning to use only retail services, thereby excluding wholesale services, including revenues from termination charges.

As to the question of including revenues from resale of mobile services, we would note that, if competition is effective in mobile telephony, then changes in retail prices will approximate changes in wholesale prices. And, as the resold services will be included in the reselling companies' reports to the ACCC of their retail operations, the data will be included in any case.

c. Is a period-on-period or cumulative approach appropriate for determining retail price movements?

CTIN believes that a modified cumulative approach is superior on balance. The modifications we propose would set a time limit on credits that can be accumulated.

Our reasoning is that, period-on-period alone (ie without crediting) will tempt distortions with companies either holding back or bringing forward price declines. However, full and unending crediting would provide a significant advantage to the worst performers whom could initially obtain credits easily. Hence, we would recommend that credits be allowed for no more than 3 reporting periods ie for no more than 18 months.

d. Should retail price movements be adjusted to take into account changes in quality and if so, why?

In an ideal world adjustments would be made to reflect changes in quality. The fundamental reason is that consumers, whose interests the exercise is meant to further, will likely trade off quality improvements against higher prices.

However, allowing for quality is a recurring and largely insoluble problem in price monitoring and CTIN recommends quality changes not be incorporated unless there is compelling reasons for doing so.

We further suggest that quality changes be incorporated with a lag. It is often difficult to assess initially whether, for example, a new value added service represents a significant improvement in quality. However, in most cases the true value will be revealed in time and so the decision is properly to be deferred. We recommend deferral by two reporting periods ie by one year.

4. Collection of information and disclosure in an aggregated form

As an independent research centre, CTIN cannot advise on the difficulty carriers might have in providing the information which the ACCC will be seeking. Equally, our position has us favour maximum disclosure in the least aggregated form possible.

We have read the Commission’s reasoning as to the preferred means of acquiring the company information. We have no argument with the proposition that this should be done under the record keeping rule, s151BU of the Act.