Mobile Services Review 2003
ACCC public hearing

Competitive Carrier Coalition

The Competitive Carriers Coalition ("the CCC")

- The CCC is constituted by:
  - Primus Telecom
  - Comindico
  - PowerTel
  - Macquarie Corporate Telecommunications

- The CCC are carriers and service providers in the Telecommunications sector that operate in retail and wholesale capacities.

Prerequisites to Access Regulation

- It is the CCC's shared experience that all factors identified as prerequisites to access regulation are evident (ie in accordance with the Part XIC regime).

- The Commission must pay particular attention to the market power of Telstra, the skewed nature of the MNO market share and the fact that Telstra and to a lesser extent Optus are integrated carriers.

Prerequisites to Access Regulation (cont)

- The F2M voice Market is (whether at wholesale or retail level) Mature.
- There are more mobiles in operation than fixed services.
- "...penetration had reached 70% (representing) the end of the mass market adoption phase" Allen Lew, MD Optus Mobiles*
- "...the mobile market would continue to grow to 75%". Ted Pretty, GMD,Telstra*

* AFR 20/6/03 p62

Issues that need to be addressed by the Commission

- Need to affirm the current declaration.
- Key issues of F2M wholesale pricing need to be addressed. If achieved retail pricing will be rectified by existing ACCC powers and if needed, Ministerial direction.
- The LTIE objective of efficient **<u>use</u>** of infrastructure should be more important to the inquiry than that of efficient investment

Existing "retail benchmarking" experiment has failed. Why?

- Retail prices aren't trending down! (ACCC data)
- No competition between MNO's - they all charge similar T/A rates.
- T/A charges represent a large proportion of MNO revenue - <u>no incentive</u> to lower retail rates to effect decrease in T/A revenue. What MNO would want this double whammy?
- Access seekers playing "perpetual catch-up". Even if retail prices fell, delays in negotiating/ arbitrating T/A rate would see 12-18mth lag before retail reductions transform to T/A reductions. Again, strong incentives for Optus & Telstra to hold back any efficiency gains.

Tinkering with the current principles won’t work

- The inherent incentives for MNOs to resist retail price falls and avoid reductions in T/A revenue is borne out in ACCC benchmarking data.

- It is staggering that Optus’ GSM retail prices rose by 17% in the twelve month period April 01 - March 02 but understandable in the context of the current pricing principles.

- The current regime produces absurd outcomes: should TA rates levied by Optus have gone up by 17% in the middle of last year? If so, they would be 300% higher than efficient cost based charges identified by overseas regulators.

Apply cost based pricing

- A cost based regime must be adopted by the Commission ASAP (pending a more detailed analysis of access pricing)
- Under current regime prices charged by the MNOs terminating service are clearly not efficient and never will be.
- Access regulation for mobiles services must be forward looking (retail benchmarking forces access seekers and regulators to drive via the rear view mirror!)

Alternative approaches available

- Little regulatory risk in applying TSLRIC access pricing as the GSM service, in particular, is now mature. Would also provide certainty to access seekers and access providers allowing for greater investment certainty.

- Inherently simpler than PSTN modelling.

- Upgrade for newer services will be largely off the back of existing technology - ie base station rollout is now slowing or non-existent.

- Accordingly, TSLRIC approach should be adopted.

CCC Recommendations

- The CCC recommends that, as part of this inquiry, the Commission researches how it might acquire and/or develop a TSLRIC model.

- The Commission already has access to RAF data and should investigate, as part of this inquiry, the suitability of this data for calculating interim "efficient prices"

Recommendations

- A two stage process would see the proxy rates immediately flowing through the market whilst the issue of the adequacy of present resources available to the Commission to undertake the broader process are addressed.
- Monitoring Telstra's internal transfer prices - this should be a relatively simple exercise using accounting separation material
- What rates are charged by the dominant MNOs for calls made between their respective networks?
- Abundance of data, analysis and findings by overseas regulators. International benchmarking may be appropriate in the shorter term.

Recommendations

- Plenty of tools at ACCC's disposal to deal with retail pass through of mandated wholesale price reductions.
- Strong recommendations to the Minister ought to be made. In particular, F2M ought to be a "core service". It forms part of the Ministerial Direction on Accounting Separation but still does not have the same status of LCS, PSTN or ULL bottlenecks.
- Part XIC and B tools. Record Keeping Rules, Tariff filing directions and imputation testing. A number of ways in which bright line testing for retail pass through concerns may be implemented under the anti-competitive conduct regime in Part XIB.

The Central Issue Now for the ACCC

- "How far should TA rates fall and how quickly"
- The CCC's response.
  - Start at 10cents
  - impose immediately
  - thereafter establish a glide path via cost based model