INTUG

ATUG Victoria, Melbourne 8 vi 2004

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An exit strategy from regulation?

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INTUG contents

- about INTUG
- benchmarking Australia
  - broadband
- options for the government
- conclusions

INTUG what is INTUG?

- members
  - national associations
  - corporations
  - individuals
- activities
  - ITU and WTO
  - OECD
  - APEC TEL, CITEL
    and the European Union

INTUG our aims

- real and effective competition
- genuine choice for users
- lower prices
- higher quality
- more innovative services
- constructive co-operation with
  - international bodies
  - governments
  - regulators

INTUG priorities

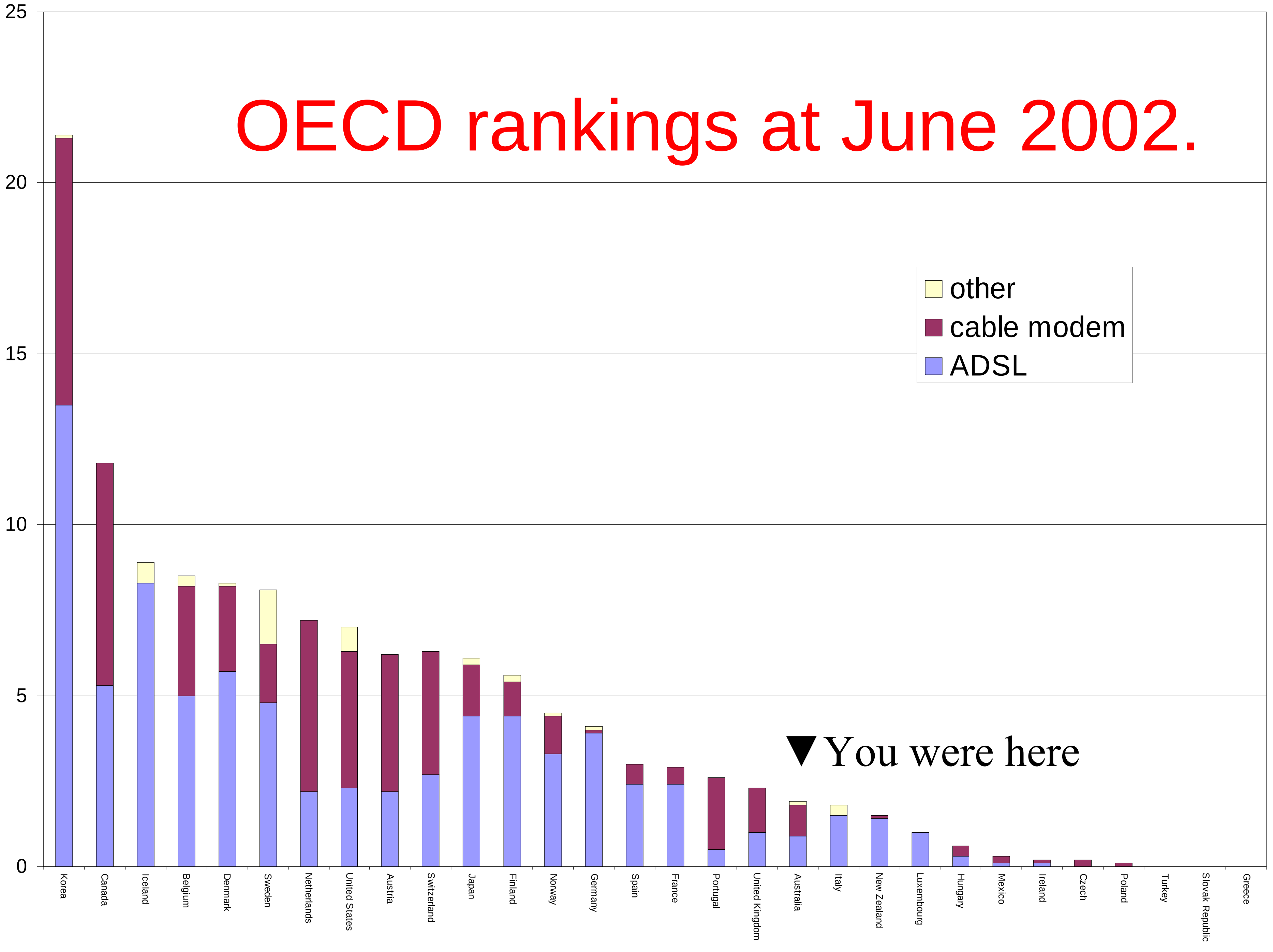
1. open access to global mobile networks
2. regulatory best practice
3. liberalization
4. universal access
5. broadband
6. leased lines
7. IP telephony
8. numbering

INTUG benchmarking australia

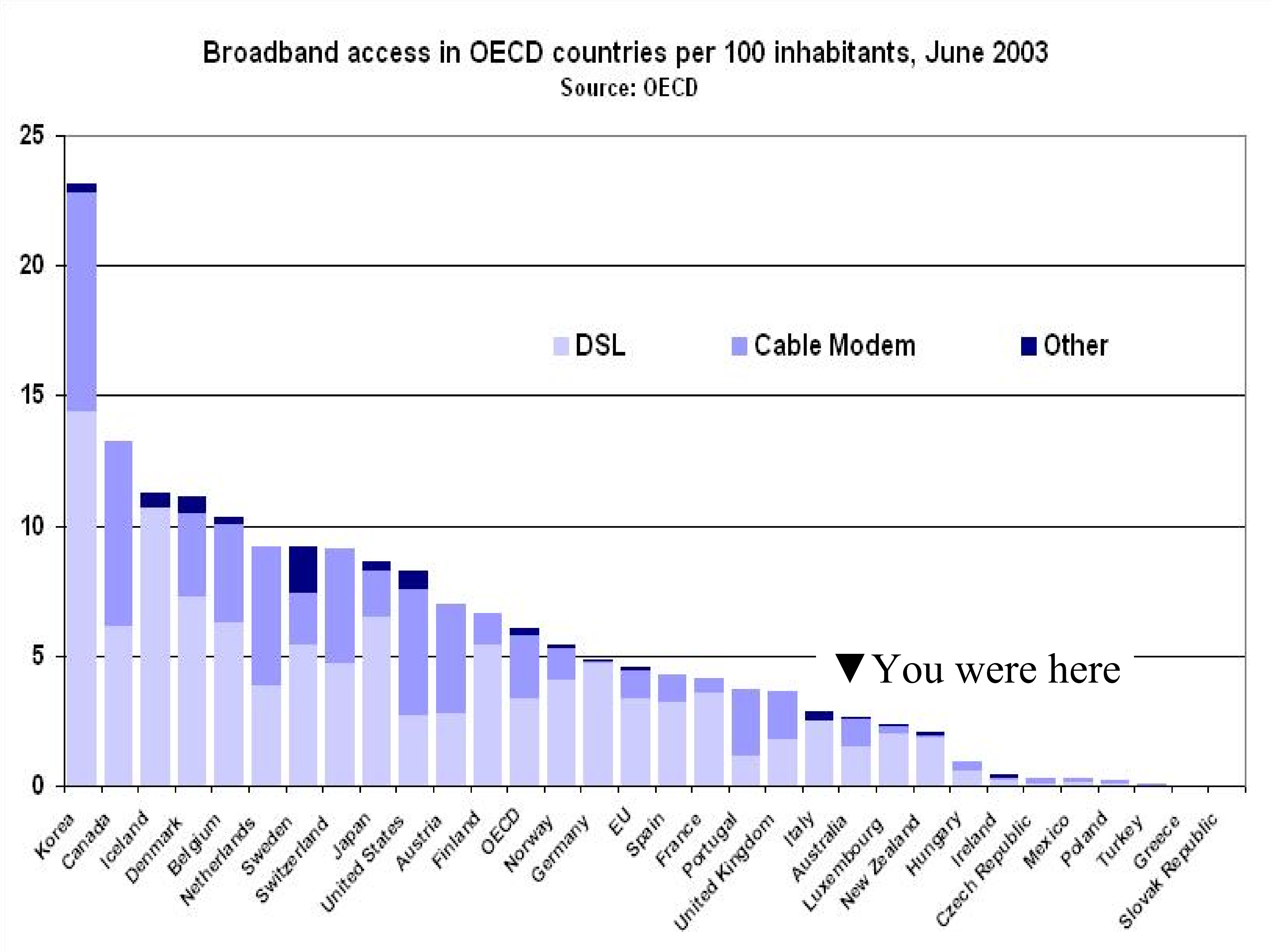
- overall economic position
- overall ICT position
- overall telecoms position
- broadband position

INTUG broadband

- a declining position in world rankings
- overtaken by non-OECD countries
- increasing "spin"
  - Korea is only pornography and piracy
  - foreign operators are losing money
  - we are doing better than the Kiwis
- basic offers are:
  - slow "bonsai" broadband
  - capped on the amount downloaded
  - except for Telstra content



OECD rankings at June 2002.
other
cable modem
ADSL
▼You were here
25
20
15
10
5
0
Korea
Canada
Iceland
Belgium
Denmark
Sweden
Netherlands
United States
Austria
Switzerland
Japan
Finland
Norway
Germany
Spain
France
Portugal
United Kingdom
Australia
Italy
New Zealand
Luxembourg
Hungary
Mexico
Ireland
Czech
Poland
Turkey
Slovak Republic
Greece


Broadband access in OECD countries per 100 inhabitants, June 2003
Source: OECD
25
20
15
10
5
0
DSL
Cable Modem
Other
You were here
Korea
Canada
Iceland
Denmark
Belgium
Netherlands
Sweden
Switzerland
Japan
United States
Austria
Finland
OECD
Norway
Germany
EU
Spain
France
Portugal
United Kingdom
Italy
Australia
Luxembourg
New Zealand
Hungary
Ireland
Czech Republic
Mexico
Poland
Turkey
Greece
Slovak Republic

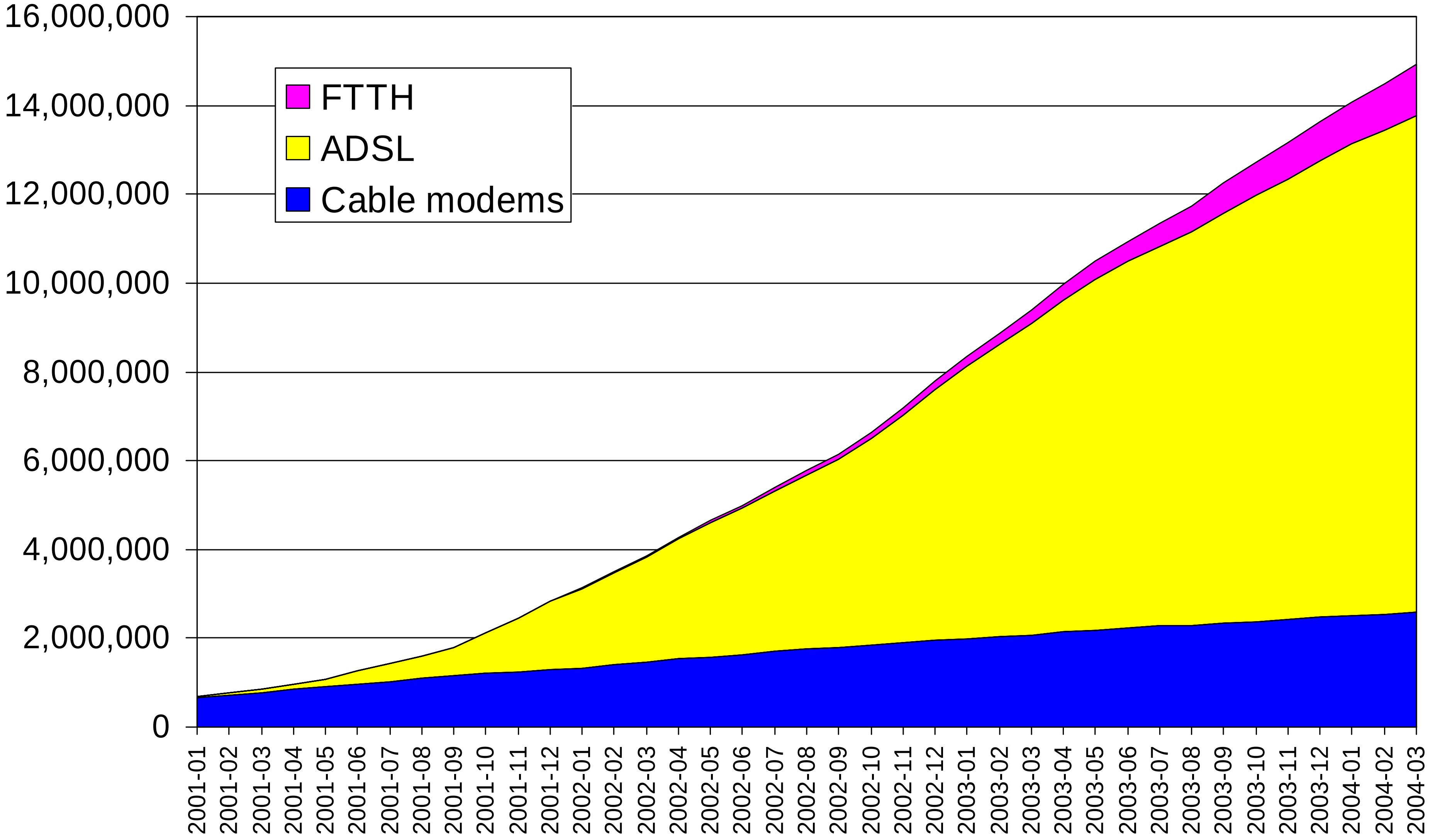
INTUG broadband beyond OECD

- Eastern Europe
  - Estonia and Slovenia
- Asia
  - Hong Kong SAR, Singapore and Taiwan
- Latin America
  - Chile
- North Africa
  - Morocco, Algeria, Tunisia and Egypt

INTUG asian giants

- Korea
  - 11M lines since end of 2002
  - of which 2M are now VDSL (20-50Mbps)
- Japan
  - 15M lines + 400,000 per month
  - JPY 4,000 per month for 45Mbps
- China
  - 11M ADSL at end of 2003 +11M in 2004
  - 2M cable modems
  - 1M BWA 3.5GHz
- India
  - aiming for an initial 10M lines
  - truly massive content industry

INTUG Japanese broadband

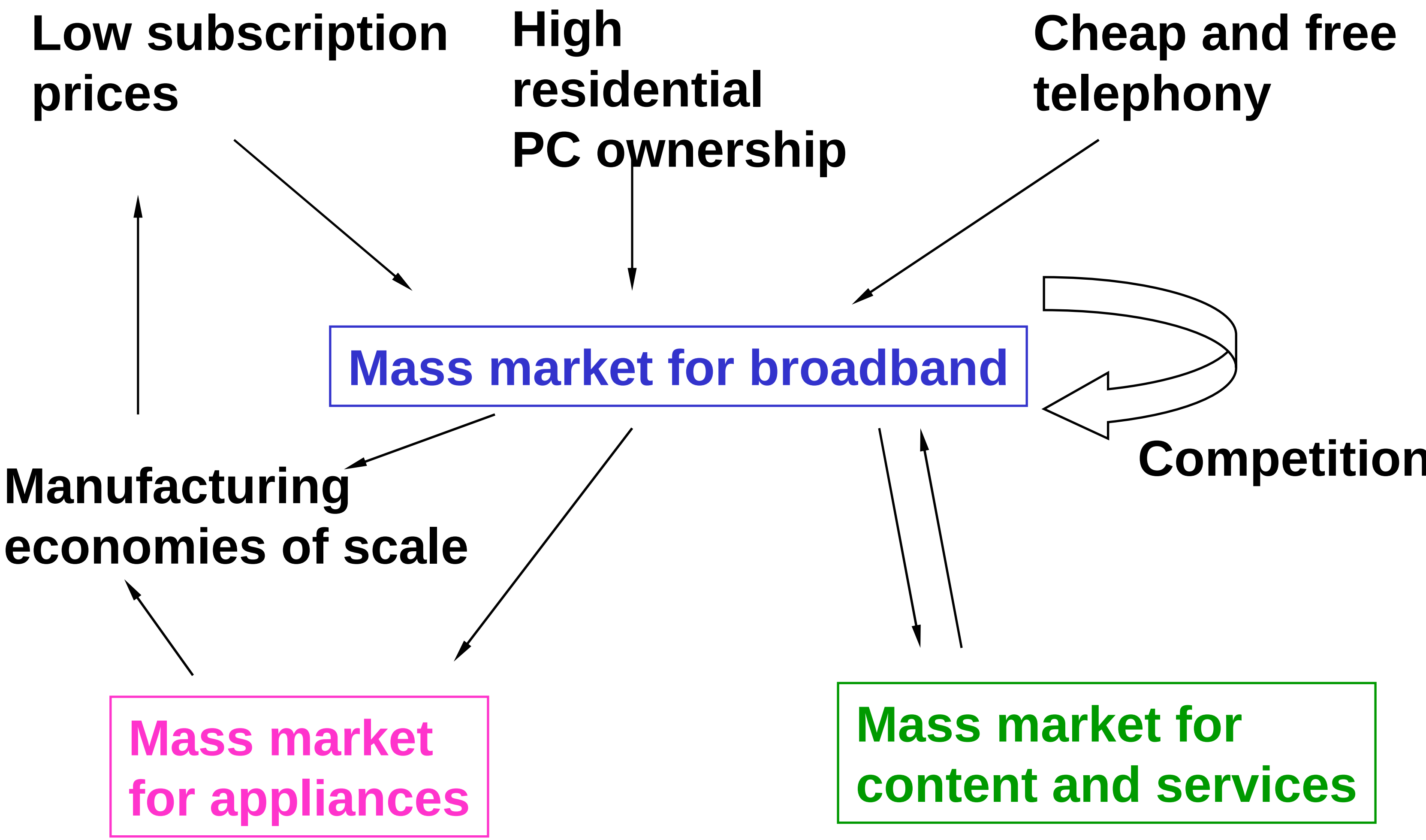


INTUG economies of scale

- manufacturing
- networks
- applications
- broadband consumer devices
- research

Economic clusters around the East China Sea

INTUG drivers



INTUG NE Asia *versus* Europe

- very high bandwidth
- access
  - to all content
  - from all networks
- massive scale for
  - operators
  - manufacturers
  - service providers
- competitive market structure

- mostly “bonsai" broadband: < 1Mbps
- protecting leased line revenues
- incumbents deny/delay/degrade LLU for rivals
- incumbents bundle to block/stifle rivals
  - VoIP to protect telephony market share
  - content to control path to VDSL

INTUG EU-15 ADSL by country

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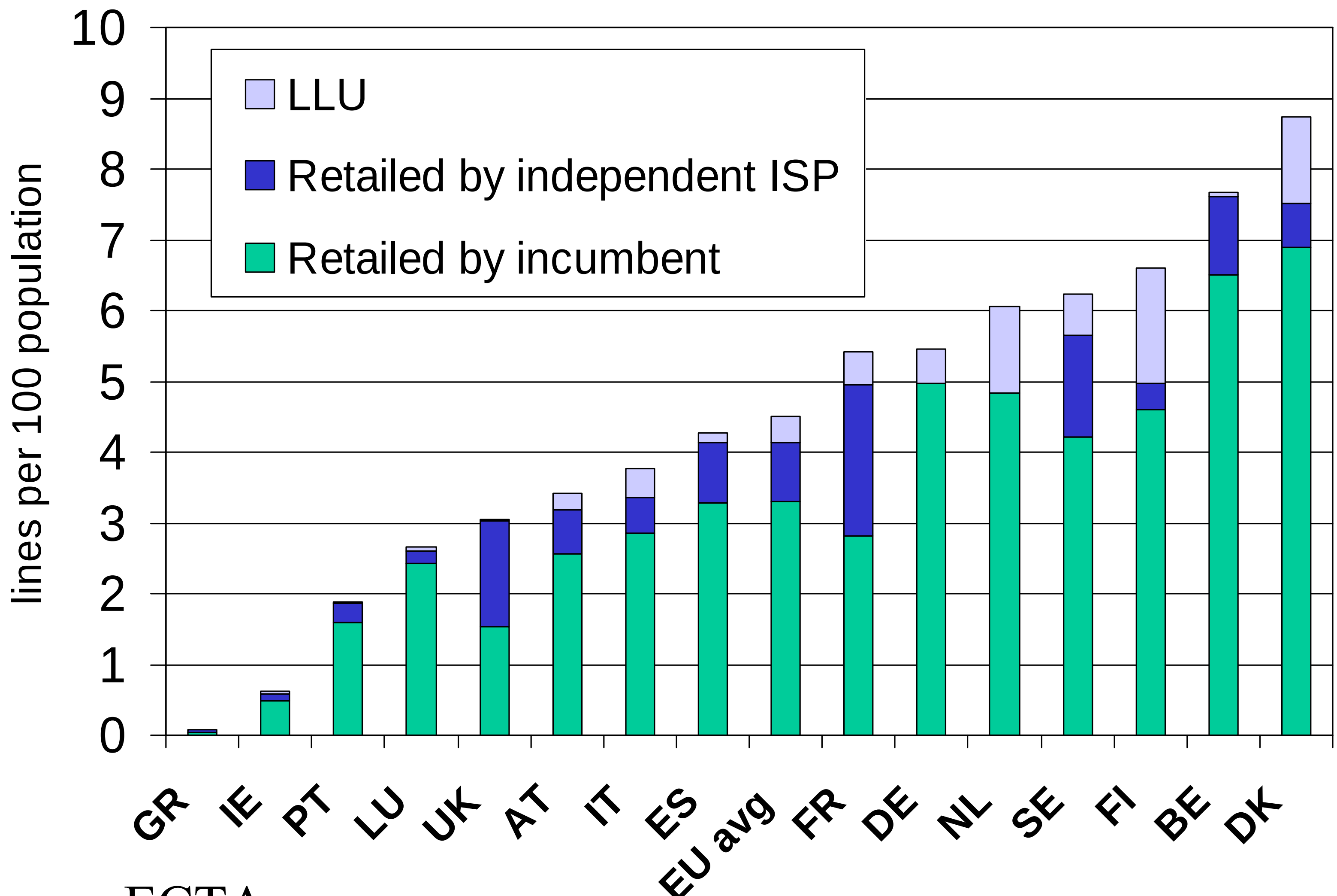

Source: ECTA

INTUG growth of LLU in EU-15

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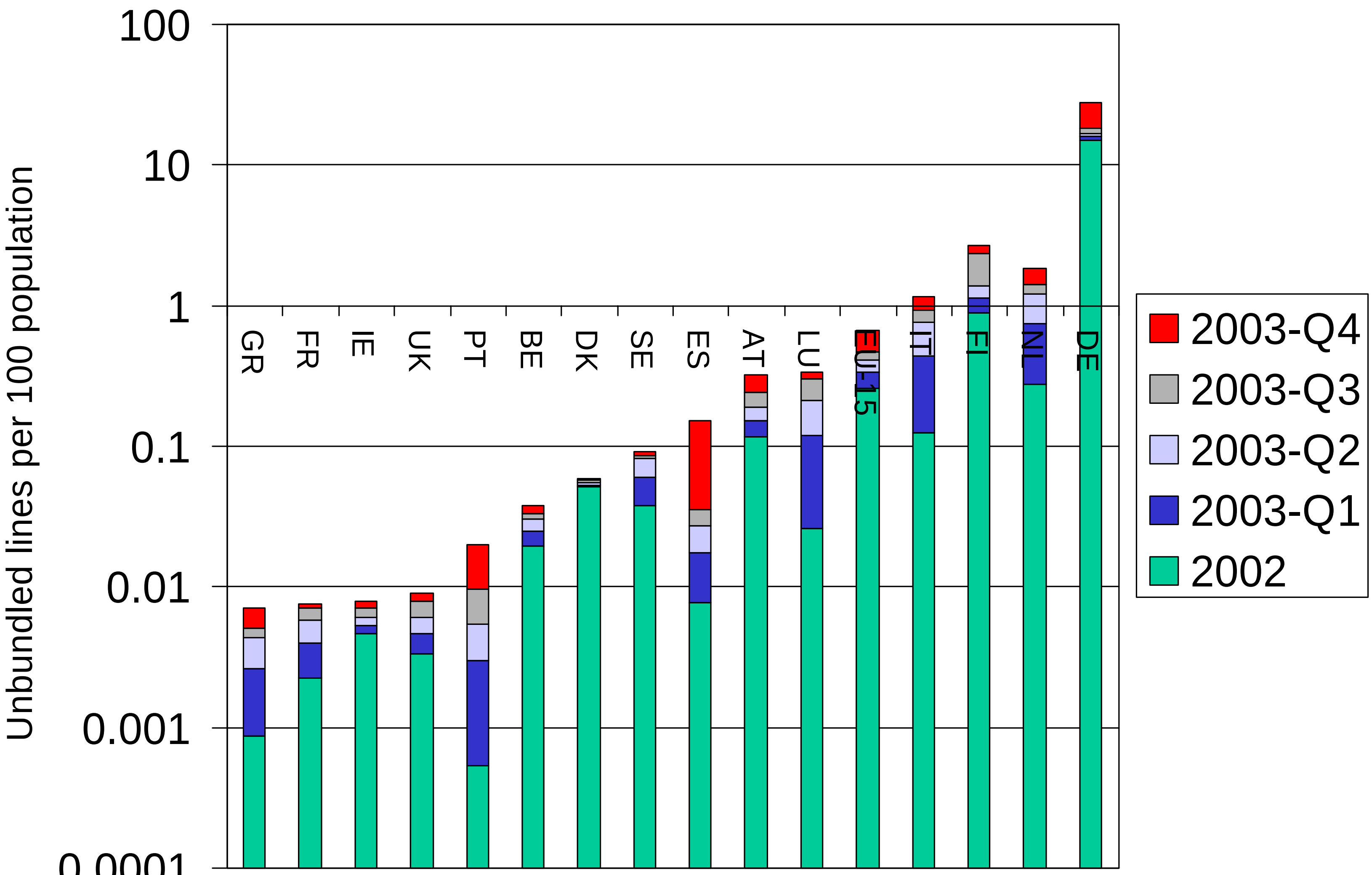

INTUG looking ahead

- target is **not** ADSL
- but the stage after!
  (and the one after that)
- certainly **not** 0.25 to 2Mbit/s
- ubiquitous networks
  - wireline and wireless
  - 50 to 100 Mbits/s (and more)
- revenue from content and services

INTUG government roles

- national ICT strategy
- ensuring real competition
- raising PC home ownership
- supporting local and linguistic content
- keeping a steady course

INTUG competition in Australia

- is there any?
- Optus does not seem to try very hard
- incumbent has a track record of suppressing local competition
- Internet peering agreement looks anti-competitive
- strong vertical integration

INTUG Professor Fels

- "In the local call services market competition has had very little impact. Telstra owns the only ubiquitous customer access network."
- "Telstra retains a commanding market share across a broad range of telecommunications markets"
- Key regulatory challenges of convergence:
  - "Firstly, the potential for Telstra to leverage its extensive market power into other industries and markets"

INTUG tougher regulation

- could try to improve the behaviour of Telstra by fiercer regulation
- local loop unbundling
- bitstream access
- wholesale line rental
- price caps
- non-discrimination obligations

does this create effective or sustainable competition?

INTUG politico-regulatory games

- a game played at different levels
- pre-emption of the market
- lobbying:
  - ACCC
  - courts
  - newspapers and television
  - minister(s)
  - Treasurer
- Telstra wins at many different places
  "regulatory risks are manageable"

may be time to cut this Gordian knot

INTUG competition requires competitors

- no near geographic neighbours
  - few enter the market itself
  - few use it as a regional base
- global players are only in CBDs
  - for MNC business
- so we must look within Australia
- start-ups are slow
- gas and electricity utilities?
- community/municipal?
- no enthusiasm to take on Telstra

INTUG policy blight

- T3 sale has been on and off for years
- outback politicians do not like T3 sale
- Labor believes ownership would give it leverage
- the reverse is true, Telstra is so big it can influence government
- Optus is comfortable in its duopoly
  - SingTel's "cash cow"

INTUG Telstra is too big

- Telstra dominates stock exchange
- undue influence on any government policies because of it size
- look at the problems in New Zealand

INTUG so why not break up Telstra?

- into states:
  (Telstra NSW, Telstra Victoria, Crow-eaters Telecom, etc)
- into networks:
  - mobile
  - cable television
  - wireline network
- 12 months grace then force them to compete in each other's markets

American Telephone & Telegraph

- Modified Final Judgement (MFJ)
- best known break-up:
  - AT&T (national and international)
  - Lucent (manufacturing)
  - “baby” Bells (regions)
- worked very well for first few years
- since then significant consolidation
- ended in politico-regulatory games

INTUG EU cable and PSTN

- Article 90 Directive issued by EC forcing separation of ownership
- where two infrastructures had a single ownership this stopped competition
- implementation was poor
- delays in Germany
- bankruptcies in Ireland

Separation of ownership of cable television networks from PSTN ownership is endorsed by OECD.

INTUG The Great Australian Loop Co.

- split off the "local loops" from Telstra
- lease to all comers on fair and equitable basis
- requires an act of Parliament
- where do you cut the loop?
- how do you ensure future investment?
- is it still truly a monopoly?

OECD concluded that implementation was impracticable.

INTUG splitting off mobile

- was driven by financial analysts:
  - wireline is boring
  - wireless is exciting and growing
- examples include:
  - AT&T Wireless (acquired by Cingular)
  - mmO_2 from BT
- need to re-think for broadband
  - voice revenues must decline
  - wireless Internet is a lot more than 3G

INTUG effects

- Telstra Mobile would be obliged to go into wireless broadband
- Telstra Fixed would be obliged to go into mobile
- Telstra Cable would also go into mobile (as an MVNO?)

INTUG selling off

- split the existing Telstra shares:
  - regionally
  - functionally
- then sell off residual government holdings

INTUG rural broadband

- different national definitions of rural
- much too early to define a target:
  - no clear technical parameters (e.g., speed)
  - a number of technologies, but
  - no clear business model(s)
- competition is delivering, especially Wireless ISPs
- experiment, without distorting markets

INTUG universal service

- should have option to divide obligations:
  - by region
  - by function
- contributions must be **net** of benefits from:
  - economies of scale
  - intangibles
  - savings in marketing costs where a monopoly
  - revenues from in-bound calls
- new issues:
  - VoIP (loss of revenues but lower costs)
  - potentially expensive inclusion of broadband

INTUG European Union

- operators are assigned for USO by govts.
- the option exists to tender (reverse auction)
- operators can request funding
- not considered an unfair burden in:
  - Spain EUR 150-200M per annum
  - United Kingdom STG 8-12M per annum
- Universal Service Fund is applied in:
  - Italy EUR 40M per annum
  - France EUR 300M per annum
- the others have **not** requested support

INTUG conclusions

- overall position is discouraging
- geography does not help
- to achieve competition you need competitors, if they are not present you might create them by splitting Telstra
- the alternative is to regulate Telstra:
  - with ever greater detail
  - with ever greater rigour
  - with ever greater vigilance

INTUG thank you

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