

8 July, 2002

Committee Secretary,  
Standing Committee on Communications,  
Information Technology and the Arts  
House of Representatives  
Parliament House  
CANBERRA ACT 2600

Dear Mr Egan,

### **Inquiry into Wireless Broadband Technologies**

ATUG'S submission to the Inquiry will centre on terms of reference relating to regulatory matters.

Four factors have guided development in the telecommunications industry – technology, regulation, financial interests and market needs. These factors are interdependent, each influencing the other dynamically and iteratively.

Development of Australia's telecommunications services is essential for social and economic development. Telecommunications is a "utility" for its end users – there is no option to not have "the phone".

#### **Technology**

The technologies of relevance are broadband transmission, wireless, 3G and IP based switching networks. Many of the issues around access and interconnection pricing, terms and conditions will arise afresh as these new networks are developed.

#### **Regulation**

In 1991 de-regulation was introduced. In 1997 open competition was permitted because of the benefits this would bring to users in terms of price, service and innovation. These outcomes have been achieved to varying degrees, but regulation has been an important factor in this result. Competition seems increasingly fragile and needs continued regulatory support to ensure the gains made do not disappear.

### Financial Sector interests

The interest of the financial sector in the industry since 1997, when T1 was issued, has had significant influence on industry directions. It has also created unforeseen tensions between the interests of the shareholders and the interests of the end users. In 2001/02 the capital market is saying: reduce capex, improve earnings and cut costs. The impacts on users will be higher prices, reduced levels of service and possibly delayed innovation. Capex levels have been relatively static over ten years.

### Market Needs

Market demands are changing and will create opportunities for the industry. Wireless and internet services are clear examples. Well-priced value added services also present opportunities. The key learning from the market over the last five years is that customers want one bill for communications services. This has important implications for competition policy. Service based competition must be supported with regulation so that end users can choose between bundled offerings from a range of service providers. The market has doubled in size from 1995 to about \$26 billion. On average residential spend has grown faster than the market overall. Households now spend on average \$1380 pa on communications services. The Top 500 companies have doubled their communications spend over the last seven years.

ATUG's summary comments on the Terms of Reference are:

#### **1) Current rollout of wireless broadband technologies in Australia and overseas**

ATUG has reviewed this area with the assistance of Mr. Joel Martin, Research Director, Infrastructure and Communications, IDC Australia.

Governments in Sweden, NZ and Japan have announced programs to support rollout of broadband in regional areas.

OECD data indicates Australia is slow in terms of broadband rollout.

State Governments in Australia are implementing a range of strategies to explore the use and availability of broadband for government service delivery.

#### **2) Inter-relationship between various types of wireless broadband**

ATUG has reviewed this area with the assistance of Mr. Joel Martin, Research Director, Infrastructure and Communications, IDC Australia.

#### **3) Benefits and limitations**

Users make decisions on the basis of usage price, price and availability of consumer devices, service quality and reliability, information security, vendor support capability and coverage.

#### **4) Telecommunications regulatory regime**

Regulation should be technology neutral.

Commercial and social needs for spectrum have to be balanced. Spectrum auctions have imposed financial burdens on infrastructure competition.

Access regulation needs adjustment to ensure timely and non-discriminatory access for anyone wishing to interconnect such as providers of wireless local loop and broadband services.

## **5) Changes to regulatory regime**

ATUG's Top 100 survey suggests the need for change to reflect difference in geographic markets.

ATUG's submissions on Record Keeping Rules and Alternative Dispute Resolution suggest a more pro-active role for the ACCC in regard to use of information as a regulatory tool.

ATUG has proposed a Rural Telecomms Infrastructure Trust Fund to support infrastructure developments along a public-private partnership model.

## **6) Likely future national and international trends**

A number of countries are discussing approaches to achieving competition in local loop access and to speeding up rollout of broadband access. The OECD is doing work in this area – [www.oecd.org/sti/telecom](http://www.oecd.org/sti/telecom).

Ericsson sponsored a Regulatory Tour of Europe in May 2002. A number of papers were presented to the delegates which may be of interest to the Committee and should be sourced through Ericsson Australia.

ATUG's report of CommunicAsia 2002 is attached.

Attachment 3, ATUG's Demand Side Survey, should be treated as commercial in confidence.

Yours sincerely,

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**House of Representatives  
Standing Committee on Communications,  
Information Technology and the Arts**

**Inquiry into Wireless Broadband Technologies**

**July 2002**

## Introduction

ATUG has been contributing to the policy development in telecommunications since 1980. ATUG was established by a number of corporate users of telecommunications with the purpose of achieving a de-regulated telecommunications market in view of the benefits to end users through choice, price, service and innovation.

**A company overview is at Attachment 1.**

**ATUG's Focus Policies for 2002 are at Attachment 2.**

In summary, we are concerned about Competition, open access, Broadband connectivity, Mobile coverage and pricing, Informed Choice for users and Regional Telecommunications Services.

## Demand side survey

ATUG recently commissioned research asking what end users thought of the state of competition in telecommunications. A sample of 30 companies was chosen from the Top 100 companies on the ASX on the basis that their combined spend of about \$5 billion would give them significant leverage in securing the benefits of competition.

ASX 100 companies believe that competition has been beneficial but have four areas of concern:

- 1) Telstra's continuing dominance is linked to its network reach and coverage, particularly in regional areas.
- 2) There is an expectation that prices should fall further – (especially since spend has doubled over the last 7 years).
- 3) Mobile and data services are two areas where competition is seen to have delivered little or no benefit while broadband has been slow to develop due to cost and supply constraints (outside the CBDs and inter-capital routes).
- 4) Competition is not seen in terms of how many suppliers exist but how effective they are.

**A fuller summary of the research findings is at Attachment 3.** ATUG would be happy to provide the Committee with a briefing on the research.

## Telecommunications Regulation

ATUG has a strong preference for technology neutral policy and regulation. ATUG feels that further adjustment is required to the regulatory framework to support and supervise competition overall, not for a particular technology.

ATUG is concerned that in recent times the telecommunications industry has been re-rated because of the financial sector's assessment of its growth potential.

Questions such as whether telecommunications is really a utility after all, cause angst to funds managers and telecommunications managers alike. The impact on further investment in infrastructure may be very significant.

On the other hand, a look at the ASX telco index over the past 5 years reveals solid growth until end 1999, almost perpendicular growth until March 2000, sharp falls until early 2002 and then a pick up around 1999 levels as if 2002 and 2001 never happened.

The future for the industry is perhaps better assessed on the basis of long-term trends. Phil Ruthven Chairman in IBISWorld shared some interesting insights at an ATUG event in June based on a long-term view of the role of information, communications and technology generally in economic and social development. He argues that the role of the information and services sector in the economy will continue to grow in importance over the next 10 years. Ruthven predicted (correctly) some 20 years ago that this would begin happen from 1980 to 2000.

There is no doubt that our economy is dependent on information, communications and technology in an unprecedented way. Consumers who have been educated using the power of computing and communications are driving market developments. When companies such as Ericsson start doing market research into consumer behaviour in the under 25's segment it's clear they are making their mark.

In ATUG's view the following trends will continue – from mass market to “me” market, from passive delivery to interactive engagement, from fixed to mobile, from voice or text to image and sound, from access fee to usage based charges. As we have gone from fixed voice to mobile voice, we **will** go from fixed data to mobile data. Hence the importance of the current focus on wireless broadband technologies.

For business, the debate on the importance of the ICT industry is over – economists are universal in accepting the potential of ICT to contribute to productivity and growth in the whole economy, not just the telco sector.

From a business users' perspective, telecommunications is an input cost, around 5% to 6% of a company's expenditure. Its relevance is in providing cost-effective capability to deliver services, manufacture outputs. Australian business needs a first class, well-priced telecommunications industry to allow it to compete on a level playing field.

Australian government also needs this capability to deliver government services such as education, health and other programs. We need to use communications to reduce the effect of distance in this country and to deliver the social benefits of a community that can communicate effectively.

In this context ATUG would recommend that the committee seek input from the Broadband Advisory Group taskforce on the interests and efforts reported by all State Governments in using new technologies such as wireless broadband to deliver government services.

Going forward with next generation communications requires capital and vision. The complications are when to build it and who will pay? The new telecommunications networks - current example is mobiles and next is broadband - are the first in history to be privately funded.

Mantras such as “we won’t build it until they have come” are new and fly in the face of the usual mantra on network effects – the more customers you have the more valuable the network. The new mantras reflect the fact that private capital that now funds infrastructure development in the industry. This needs to be well understood in setting the mix of regulation to accompany “next gen” networks such as wireless broadband.

On the other hand, the objectives for telecommunications policy and development are more complicated than simply ensuring ever growing returns on privately funded investment. Meeting these other objectives will require a range of strategies.

Different answers are needed for different markets. In the CBDs for example, we could do worse than look to current European regulation under development. Any company with 25% market share will be deemed to have significant market power with the result that increased formal regulation applies – open access, cost-oriented pricing, accounting transparency.

In regional areas perhaps a Public Private Partnership model is appropriate for infrastructure development and a service based model of competition. The Swedish and NZ governments have both recently announced initiatives to support rollout of broadband in regional markets. ATUG has been discussing a local proposal for **Regional Infrastructure Development – attachments 4 and 5.**

In remote areas, government tenders and individual subsidies for terminal equipment may be the best model. Existing examples would include government funded tenders for Untimed Local Calls in Extended Zones, Mobiles on Highways and in towns of less than and more than 500 and the recent Satellite mobile handset subsidy.

For ATUG the issue is Australia’s need for the information and communications industry to prosper, grow and innovate. Businesses and individuals need the information, access and capability that these technologies provide. We need a “next gen” regulatory framework that can support future developments.

In thinking about a future model we need to take account of what has worked and what has not worked over the last 5 years of open competition. We need a model that addresses ever-changing technologies, shifting market expectations, financial realities and national policy objectives for the economy and society.

Competition policy and its application are key to achieving progress. Users want strong competition - to deliver choice of world class services at world class prices. ATUG members feel focus is needed now on information based regulatory supervision in the face of decreasing opportunity for infrastructure and investment based competition. The introduction of accounting separation is an important step in supporting competition, and its benefits for end users.

ATUG positions on these matters are outlined in **Attachment 6 - ATUG's submission to the ACCC inquiry on Record Keeping Rules and Information Disclosure** and in **Attachment 7 – ATUG's submission to the ACCC on its Guidelines for Alternative Dispute Resolution**.

The use by the ACCC of its information powers is critical to achieving the goal of promoting the long-term interest of end users. Information is the strongest regulatory tool for achieving the incentives needed to make the access regime effective. Record Keeping Rules, Information Disclosure and Alternative Dispute Resolution Guidelines are all-important elements.

#### Last mile access

In regard to the specific matter of "last mile" access, while wireless may well be an important part of the technology solution it is also important to remember that regulation of access to the local loop is also very important.

The debate on how to achieve competition in the local loop is happening in other places. The IIC's Inter Media Magazine for April 2002 asks the question "If network competition hasn't worked, is it time to regulate the local loop as a monopoly?" Again to quote the IIC "The past three years have seen the UK telecoms industry generate growing feelings of frustration and hostility. The mood started in the Internet sector, spread quickly to new entrant telcos and was taken up by politicians. To put it simply: things ain't moving quickly enough. People want to use advanced telecom services, particularly broadband; ISPs and new entrants want to offer it at attractive prices, politicians want the economic benefits it can bring and the city wants the high growth it can generate."

Recent amendments to the Trade Practices Act last year were a response to this very issue. Changes currently under discussion include removing the right to a complete re-hearing of an ACCC decision years down the track (merits review) and insisting that there be fair dealing (price and non-price) between Telstra's wholesale division and Telstra's retail division compared to other retail competitors (accounting separation).

In any regulatory adjustment there are fundamental principles which must not be lost – any to any connectivity and the long-term interest of end users.



## **Attachment 1 - ATUG Company Overview**

ATUG was established in 1980 by a number of corporate users of telecommunications with the purpose of achieving a de-regulated telecommunications market. ATUG's mission is to achieve world class telecommunications services at world class prices for Australian businesses.

ATUG seeks to influence government, regulatory bodies and suppliers to ensure they contribute positively to the ongoing development of the communications industry.

ATUG actively promotes the use of telecommunications as a strategic resource that business can use to improve both efficiency and market position.

ATUG endeavours to ensure its members have the necessary knowledge to make the best use of modern communications services through regular branch meetings, workshops, focus groups and peer-to-peer activities conducted in all Australian states.

ATUG is a member the Government's Broadband Advisory Group.

ATUG is a member of the ITT Industry Training Advisory Board.

ATUG has been appointed Vice Chair Asia Pacific Region, International Telecommunications Users Group.

ATUG is a member of the ACA's Consumer Consultative Forum.

ATUG is represented on the Board of the Australian Communications Industry Forum.

ATUG is represented on the QLD Government Communications Information Advisory Board

## **Focus Policies 2002**

### **ATUG's Objective**

To achieve world class telecommunications services at world class prices for Australian businesses.

### **Competition**

ATUG supports sustainable competition as the best way to deliver choice, reduced prices and innovation. In some areas, ATUG believes competition has stalled. Proactive involvement by government and regulatory bodies is needed to achieve more timely outcomes for the long term benefit of end users.

### **Open Access**

ATUG believes practical equality of access to the Local Loop and PSTN, on fair and reasonable terms and conditions, is essential to effective competition. This has not been achieved through self-regulation. The ACCC should determine prices, terms and conditions for supply of critical network services. All information used to make these decisions should be publicly available. The ACCC decision should be final.

### **Broadband Connectivity**

The benchmark for communications connectivity is affordable always-on broadband access. The impacts of broadband on economic growth, government service delivery and community development are significant. Strong competition in service delivery, government initiatives and policies to support content development will accelerate take-up.

### **Mobiles**

- Users should have access to the most extensive network coverage possible. ATUG supports national roaming between carriers offering mobile services on fair and reasonable terms and conditions.
- ATUG will work for significant reductions in international roaming and fixed-to-mobile charges.

### **Informed Choice**

ATUG supports transparent choice of service levels. Information on prices, usage, conditions and performance standards should be provided in Plain English format by service providers to enable "fit for purpose" choices to be made by users.

### **Regional Telecommunications Services**

ATUG supports government initiatives to ensure well priced communications services are available for business and residential users in regional, rural and remote Australia.

## **Attachment 3 – ATUG Top 100 Demand Side Survey**

### **Survey conclusions:**

1. Telstra's dominance among Top 100 companies is comprehensive. 30% of those interviewed use Telstra exclusively, even though most of these companies have previously used other carriers. Moreover, most companies using multiple carriers limit their usage to two and in the vast majority of cases Telstra is the main supplier, typically capturing around 80% of the company's annual telecommunications budget.
2. Reasons for Telstra's continuing dominance relate largely to its network reach, and the economies of both scale and scope. Put simply, there are many products and services demanded by Top 100 companies that only Telstra provides.
3. Significantly, there is very little use of resellers among Top 100 companies. There is a clear and consistent preference for dealing directly with carriers that own and operate their own networks. For this reason, after Telstra, Optus emerges as the next most widely used provider and remains the only other carrier to have had a significant impact in the large corporate segment.
4. Among locally based carriers AAPT/Telecom New Zealand, PowerTel, UeComm, RSL Communications and Macquarie Corporate Telecommunications have made some inroads into the Top 100 – but to a very limited extent. Among global service providers, only BT, Equant, MCI Worldcom and InforNet rated a mention.
5. Some Top 100 companies have been willing to consider using Vodafone and Hutchison for mobile service, but these two companies have been largely unsuccessful in winning business from large corporations. This is despite substantial direct investment by both companies in their own networks. There is also a perception among the Top 100 that mobile services is one of the main areas where competition hasn't worked. The basis of these assessments is that the non-Telstra networks don't have adequate rural and regional coverage; and that there is insufficient price and product differentiation in mobile services.
6. While Telstra continues to attract criticism for its "complacency", "arrogance" and "public service mentality", corporate users frequently concede that these problems are less acute now than 5 years ago. Importantly, these criticisms were less frequent than the praise given to Telstra for its improved marketing, reduced prices, greater flexibility and responsiveness, diversified service offerings and efforts to improve service generally.
7. Assessments of the performance of new entrants were also mixed. The main criticisms related to lack of depth in product offerings, reliance on Telstra for network coverage and support, failure to deliver on promises, "hopeless" service and various forms of added cost and inconvenience in having to manage an independent carrier while also

dealing with Telstra. Offsetting these negative assessments were views that entrants were easier to deal with than Telstra, provided services at lower cost, mitigated operating risk through network diversity, in some cases have superior capabilities based on specialisation, and, in some cases, there was a willingness to package services more attractively than Telstra (eg by selling dark fibre).

8. With regard to the switching intentions of Top 100 companies, the main observations are:
  - Over one third of respondents are now “less likely” to change carriers than they were 1 – 2 years ago; and
  - In proportionate terms, there is not a significant difference between Telstra customers and non Telstra customers in their reported switching intentions, so that
  - A sizeable fall in Telstra’s market share among Top 100 companies appears to be remote – eg loss of existing customers could be offset by winning back others. These findings are indicative of a fairly stable market, or one that is becoming more stable.
  
9. While it is fair to say that many companies see competition as being beneficial and having delivered some positive outcomes, there are four key areas of concern:
  - Telstra’s continuing dominance is linked to its network reach and coverage, particularly in regional areas;
  - There is an expectation that prices should fall further;
  - Mobile and data services are two areas where competition is seen to have delivered little or no benefit, while broadband has been slow to develop due to cost and supply constraints; and
  - Competition is not seen in terms of how many suppliers exist but how effective they are – and for some respondents, at least, there is a view that fewer competitors, each operating on a larger scale, is preferable to a market comprised of Telstra plus a large number of niche and small companies.
  
10. In terms of agenda setting for the year ahead, ATUG is encouraged to focus on the following areas where members and other large companies see serious shortcomings.

First, the greatest areas of concern are the three inter-related issues of

- a) lack of network diversity particularly in regional areas;
- b) lack of coverage and product limitations in mobiles, broadband and data services; and
- c) inability of entrants to offer viable alternatives.

Secondly, there are a number of more day to day issues that continue to be of concern, namely -

- a) prices, with fixed to mobile charges and international roaming specifically mentioned;
- b) carrier transfer process;
- c) billing;
- d) lack of standardised “best practice” agreements for supply of services; and
- e) local provisioning arrangements, particularly where standard changes or withdrawal of services becomes costly for end users in terms of equipment changes and service disruption.

## **Attachment 4 – Rural Telecommunications Development Trust**

Government policy advocates full privatisation of Telstra providing where services in rural areas meet a satisfactory standard, relative to services in city areas. There are at least two problems with this approach. First, it is not entirely clear what level of service delivery will be deemed to be “satisfactory”, or accepted as such by the Parliament, particularly the Senate. More importantly, even where a consensus was achieved on this question, the sustainability of service provision in the future will be at issue, given the need for ongoing network maintenance, the rising level of and service standards and capabilities, and the capital intensive nature of telecommunications operations.

Creation of the proposed Rural Telecommunications Development Trust will ensure continuity of improved services in regional Australia. In essence, the Trust is a funding mechanism to provide for ongoing investment in regional telecommunications infrastructure beyond a level that is achievable on a non subsidised or non commercial basis (that is, where the return on investment falls below the cost of capital).

The Trust is therefore a granting body responsible for the allocation of funds to support specific infrastructure development proposals of carriers. In addition to improving services to regional Australia, a major benefit of the Trust is its support of the competitive regime, in facilitating investment by a number of carriers in rural areas. Moreover, the competitive nature of any fund allocation process would ensure that only well-supported proposals would be successful.

To avoid Trust funds being used as a substitute for existing investment by carriers in rural areas, strict allocation conditions would be established. By this means, funds would only be disbursed where allocation principles were met. These principles might include, for example, conditions that

- a carrier’s total current investment commitments in regional areas were maintained in constant dollar terms;
- funds are not used to meet USO or CSG obligations
- bidders must agree to provide open access on non-discriminatory terms to other carriers or service providers
- on any specific project, a specified minimum direct financial contribution (eg 50%) from the sponsoring carrier is provided;
- local community support for the project is evidenced;
- allocations are strictly for infrastructure investment purposes and not to subsidise carrier operations;
- accountability process including audit measures are applied to ensure proper use of public monies and
- use of Trust funds would be strictly limited to extend services to areas that otherwise would be uneconomic to service, or to provide improved levels of service delivery in rural areas.

The Trust could be established as an independent statutory body within the Communications portfolio, reporting to the Minister for Communications, Information Technology and the Arts. The ACA should be represented on the Board to ensure USO, CSG commitments are managed outside this scheme.

One option for the funding mechanism would be an annuity based on funds obtained from the sale of further shares in Telstra.

Another would be Government budget appropriation but to improve credibility, amendments to the *Telecommunications Act* creating the Trust could also set out the formula by which its annual funding is determined.

These figures are indicative only and subject to more detailed analysis. In broad terms however, administration of a \$1.5 billion granting agency should be possible with a staff of approximately 20 people and a total budget of around \$6 million per annum. In other words, Trust administration is likely to account for only around 0.4% of Trust assets, and therefore is supportable based on the interest earned from Trust funds under administration, without recourse to additional government funding, or leading to a diversion of funds to support bureaucratic operations.

## **Attachment 5**

### **Five Issues for Further Discussion**

#### **Issue 1: Services scope**

- (1) Intent is that the Trust provide development assistance for capital works applied to service development outside the scope of the USO/DDSO scheme.
- (2) Consequently some services are excluded eg payphones.
- (3) Mobile services are not part of the USO scheme and improved coverage of mobile networks would therefore appear to be eligible for Trust support.
- (4) The status of fixed voice service is more ambiguous. The USO relates to “standard” telephone services and the relevant Act provides some very general descriptions to define what this means. Legally, this definition is untested, although there is a regulation making power at section 6 of the *Telecommunications (Consumer Protection and Service Standards) Act 1999* which is available to help clarify the matter. In the absence of any regulation or judicial interpretation, it is moot whether a “standard” telephone service is the same as a “public switched” telephone service, as defined by the ACCC for the purposes of service declarations. (1) The use of different terms suggests they are not the same even if, as seems likely, the former is a sub set of the latter. Similarly, the statutory definition of “standard” telephony service capabilities is more limited than the SFOA description for “basic” telephone services. (2) So it is entirely possible that some elements of a fully developed telephony service fall outside the USO scheme. For example, centrex capabilities (eg call diversion, call waiting etc) appear to lie outside the legal definition of telephone services for the purposes of the USO. Clarity on this issue will be important in determining the scope of capital projects eligible for Trust financial support. See footnotes below for further exploration of these issues.
- (5) Digital data services are equally problematic. For a start, there is a distinction between “general” and “special” digital data service obligations (DDSO) which relates in part to population coverage, that would seem to have direct implications for regional and rural communities. (3) The reliance on ISDN B channels and the legislative specification of ETSI standards for ISDN as the basis for the DDSO raises further questions. For example, is provision of a 64kbps data service using standards other than ETSI based ISDN outside the scope of the USO? Conversely, is provision of a basic rate ISDN service (2 B and 1 D channel) beyond the scope of the USO scheme? A legitimate area for Trust endeavour is to foster the adoption of higher data rate and broadband services in regional areas. This includes Internet, data and video services. Higher speed data services above 64 kbps would seem to be reasonably included within the scope of the Trust’s activities. However, 64 kbps services provided independently of ETSI ISDN standards and ISDN services comprising more than a single 64kbps connection might also be seen as eligible for Trust support. (4)



*Comments are sought on the scope for funding service development via the proposed Trust, and how best to specify where the USO scheme “ends” and Trust activities begin.*

## **Issue 2: Role of the Trust**

- (1) Unlike Networking the Nation and Besley projects, where a nominated level of funding has been provided for specific initiatives, the operations of the Trust require (i) specification and selection of future projects (“project selection”) and (ii) a decision making protocol relating to the quantum of funds to be provided for each selected project (“funding allocation”).
- (2) It is clear that competing priorities can arise at each of these two stages. Development and publication of project selection criteria will be an important aspect of the process so that interested parties may participate effectively, and expectations are set in a realistic manner.
- (3) It is best to acknowledge publicly that trade offs arise. For example, the Trust will need to balance the interests of special communities (such as very remote users, aboriginal settlements etc) with the opportunities to make substantial improvements to the infrastructure and services available to larger regional and rural communities. In this case there is a trade off between people whose needs are greater (measured in terms of a greater disparity in service levels relative to metropolitan users) and using the funds in such a way that the greatest number of people living in rural and regional areas benefit from Trust development projects.
- (4) Ongoing consultation with community members and representative organisations is important so the Trust can be fully informed on differences in service levels in different areas, and of any special needs particular communities may have.
- (5) It may be that the only practical way to deal with these kind of issues is to set aside specific amounts for those in greatest need eg most disadvantaged 10% of the population receive, say 25% of available funding support, until such time as service levels to these communities improve to a standard comparable with other regional communities. In other words, Trust activities may be divisible into two broad streams catering to these distinct communities.
- (6) It follows that an important investigative task for the Trust is to obtain reasonably detailed information on the nature and quality of services delivered to regional areas, on a comparative basis, so as to have an objective and reliable database of information upon which the Trust may rely in forming decisions around the selection and funding of specific projects.

- (7) Consultation with carriers and service providers is needed to obtain reliable information on these issues and to understand factors affecting different levels of service and support in regional and rural areas. Trust consultations with carriers might also include information gathering in relation to forward commitments on capital projects in regional areas, and expectations of service improvements.
- (8) An alternate approach to public administration is to separate project selection from funding eg the Department, the ACA, and/or the Minister might determine the areas and projects that are to be supported, with explicit priority ranking. It would then be left to the Trust to conduct tenders to determine which carrier or supplier is to be awarded a development contract to supply the designated service. The exact funding requirement will of course only be known after the tender is awarded.
- (9) A further alternative exists, where carriers initiate proposals that are assessed by the Trust. This is a “market led” approach, as distinct from the Trust or government led approaches outlined above. Advantages of this approach are: (a) it facilitates a potentially wider range of projects than might otherwise be considered; (b) it avoids the risk that some government or Trust developed projects may attract little or no interest from carriers, as being too onerous; (c) it minimises the costs of Trust operations by removing project development as a key function; and (d) it encourages efficiency by enabling carriers to sponsor projects that are better integrated into their overall network and service development plans than stand alone government initiated projects would be.
- (10) Some problems with a market led approach are (a) problems of overlap – where different proposals are received from different carriers that are not directly comparable but contain common elements; (b) it is a less open and transparent process eg should carrier initiated projects be put to tender or assessed as confidential applications for funding on a first come, first serve basis?; (c) a further problem is how a market led (in this case, really a “supplier led”) approach fits into an overall plan of public consultation and community involvement, ie will it facilitate improved services to those most in need or simply lead to the easiest problems being addressed and more difficult service issues being shelved indefinitely?

*Comments are requested on these respective approaches, and on the general issues raised relating to the Trust’s role and functions.*

### Issue 3: Accountability

- (1) The Trust is envisaged as a statutory body within the Communications portfolio. It reports to the Minister and provides an Annual Report, which the Minister tables in Parliament. As it is intended to be a body with perpetual succession, establishment under an appropriate Act (eg the Telecommunications Act or the Telstra Corporation Act) is an option. A statutory authority would provide the Trust with a precise charter, and a well understood basis for inter-working with other arms of public administration. Whether the use of the term “Trust” creates a confusion as to the legal status of the

entity or suggests a different and distinct legal form is an issue for further consideration and expert advice.

- (2) The Trust would be required to report on the projects funded annually and on the service measures used to assess whether those projects have achieved their objectives. The intent is that objectives relate to specific aspects of service delivery, such as those used by the ACA in its measurement of carrier performance.
- (3) This raises the question as to whether the ACA should measure and report on the level of service improvement actually achieved in relation to Trust funded projects. As well as having relevant expertise in this area, an ACA review would ensure that an objective and independent assessment was conducted. There could be a tendency for the Trust to assess all its projects more favourably than an independent agency.

*Comments are requested on (a) the form of incorporation considered appropriate for the Trust, and (b) on accountability measures, both of the Trust to the Parliament, and of carriers in relation to use of funds allocated by the Trust.*

#### Issue 4: Quantum and sourcing of funds

The recent Commonwealth Budget sets out expectations as to the receipts from a further sale of shares in Telstra. The main idea underlying the Trust is that sale proceeds be converted to an annuity to support on going infrastructure and services development in regional areas. This raises the question as to whether the Trust should operate as an investment fund or not. In principle, conducting the Trust as a managed fund could be undertaken, but it has implications for risk, or the variability of returns, as well as the level and nature of staffing and management expense that would be incurred. The alternate approach is that sale proceeds be retained by the Commonwealth, but the funds available to the Trust each year are advanced by the Commonwealth, either as a lump sum annually or on a project by project basis, as required, subject to an overall expenditure limit.

If this latter approach is adopted certain issues arise, including:

- (1) Whether the amount advanced/expenditure limit each year should be variable and discretionary, based on wider issues relating to fiscal policy, or whether a fixed amount is to be specified as available for use over several years (eg 5) and if so,
- (2) What that amount should be;
- (3) How it should be determined; and
- (4) What are the appropriate legislative or institutional arrangements to ensure that these funds are secured?

*Please comment on preferences with supporting reasons.*

#### **Issue 5: Allocation parameters**

- (1) Funding is capital only, not operational.

- (2) Applications from carriers need to separate capital and operational costs and identify the extent of contribution to capital costs needed from the Trust and amount carrier is to provide.
- (3) A payment schedule would be needed. Project duration in years needs to be specified and level of maintenance capex identified, including any ongoing Trust support for this component.
- (4) Depreciation and tax issues (eg income recognition and deductibility rules) will require more detailed analysis.

*Comments on these and any related points are requested.*

## Footnotes:

(1) In its service declarations the ACCC defines “public switched telephone network” as “a telephone network accessible by the public providing switching and transmission facilities utilising analogue and digital technologies”. Note that related definitions in the instrument declaring the local PSTN originating service include “telephone calls” and CCS#7 signalling. The relevant definitions are:

**telephone calls** are calls for the carriage of communications at 3.1kHz bandwidth by means of a public switched telephone network using CCS#7 signalling and include calls made with any of the following:

- a) access seeker specific codes;
- b) pre-selection in accordance with any instrument made by the Australian Communications Authority from time to time under Part 17 of the *Telecommunications Act 1997*;
- c) over-ride dial tones in accordance with any instrument made by the Australian Communications Authority from time to time under Part 17 of the *Telecommunications Act 1997*.

**CCS#7 signalling** is signalling in accordance with the NIIF/ ACIF ISDN layer 4 protocol specification for interworking between Australian carriers.

(2) In the Standard Form of Agreement, Telstra offers a “basic” telephone service (as distinct from a “standard” service) that comprises network connection, a telephone number, a free listing in a telephone directory, access to certain call types, a 24 hour fault reporting service, and maintenance and repair of equipment and facilities used to supply the service. This description varies materially from the statutory definition of a standard telephone service for the purposes of the universal service regime – s 6 of the *Telecommunications (Consumer Protection and Service Standards) Act 1999* refers. Note that the Act leaves open what might be entailed by phrases such as “the purpose of voice telephony” and is totally silent on questions relating to the reliability and availability of the service and many of the other service elements identified by Telstra in its SFOA.

(3) One policy implication is that anticipated service levels in remote areas is expected to be lower than in other areas.

(4) The lack of precision in current legislative provisions adds to the difficulty in finding a clear line of demarcation between Trust initiated activities and the USO/DDSO scheme. Phrases such as data rates that are “broadly comparable”, and services that are “reasonably accessible” “on an equitable basis” open a potentially wide ambit for interpretation and assessments of compliance.

**Attachment 6 –**  
**Comments on ACCC Discussion Paper on Regulatory Principles for Public Disclosure of Record Keeping Rule Information**

**BACKGROUND COMMENTS**

The policy objective of competition in telecommunications services is to increase choice for users and thus to deliver price and service benefits and innovation.

The promotion of competition can be achieved by a mix of structural means, regulatory means, information and market pressure. The tools to be applied, in ATUG's view, depend on the level of competition in a particular market, measured not only by customer share but also by costs, revenues and margins.

Information is clearly as an important tool for the ACCC in administering competition regulation in the telecommunications industry. The two main areas of focus, assessing anti-competitive behaviour and guaranteeing access to network services on terms and conditions that are reasonable, both rely on access by the ACCC to proper information.

ATUG supports the Commission's view that disclosure of record-keeping information can promote competition by:

- 1) Reducing the information asymmetry between access providers and access seekers
- 2) Increasing the transparency of decisions with regard to part XIB and part XIC matters and
- 3) Informing consumers, policy makers, other firms and investors to enable them to participate more effectively in the telecommunications market.

**1) Information Asymmetry**

Disclosure is an important answer to the information asymmetry problem identified. As an alternative to mandatory disclosure, the ACCC might consider using industry wide ADR processes for certain decisions eg access deficit and interconnect rates.

Given the increasing movement of the industry, with the help of the ACCC, towards dispute resolution rather than arbitration (a move ATUG applauds) it is important that information disclosure is not confined to that collected in arbitral processes but applies also to information gathered under the record-keeping rules.

ATUG suggests that the developing communications skills of the industry in alternative dispute resolution processes should be applied to an industry based determination of the access deficit and the interconnect rate going forward. The ACCC and industry participants should develop an industry-agreed position on these important questions. Such an

approach could help to achieve the open, speedy and transparent access as discussed in recent amendments to the Trade Practices Act.

The concern expressed in the Act that disclosure be constrained by regard for the **legitimate commercial interests** of firms rests on an assumption that the legislation has been effective in promoting competition. ATUG does not believe this has been achieved yet given the revenues, margins and profitability of Telstra compared to any, indeed all, of the competing firms. The focus should be on promoting competition until success has been achieved against this paramount objective. The relevant tests are whether disclosure is in the long-term interests of end users and whether disclosure would promote competition.

## 2) Transparency

ATUG supports the disclosure of information as a means of ensuring transparency of regulatory decision-making, a concern traversed at length by the Productivity Commission Report. Concerns by participants as to the basis for ACCC decisions should be eased by the disclosure of the information on which these decisions are based.

## 3) Informing other participants

For purposes of reassuring users that progress is being made in the competitiveness of the industry, information should be publicly available on an aggregated basis. This assurance is more important given the direction of price movements upwards over the last 6 months. The ACA Annual Report 2000-01 (page 48) indicates that the vast majority of benefits to consumers from the telecommunications regime have been **non-price** benefits (89% of upper limit benefits of \$12 billion). Given the small % that price benefits comprise after 5 years it is important that the ACCC adopt a positive position on information disclosure to the public that price changes are cost related.

ATUG has a preference for public disclosure wherever possible in keeping with our specific policy of Informed Choice. For competition to be effective in the telecommunications industry not only the competitors but also users need to have a secure information base on which to make decisions about prices. Where markets are clearly competitive the need for this information support is not required. Where a product or service is essentially monopoly provided then information about costs should be readily available to competitors and users.

ATUG is of the view that information should be made available by ACCC at the time of any price increases in services that are not yet competitive, to provide assurance to the public that increases are cost related.

## SPECIFIC REMARKS

Q1 ATUG agrees with the Commission's approach - that is to disclose information if this promotes competition and facilitates the operation of Part XIB and XIC. **ATUG believes that the balance of interests should rest with these factors over a concern for the commercial interests of an individual firm where that firm has significant market power.**

Q2 Yes – at present the dominant carrier Telstra has significant information power by comparison to other carriers. This can in part be redressed through the disclosure of record keeping information. In ATUG's own experience trying to assess the basis of policy positions which are argued is difficult due to lack of information – marked in the Commission's own documents as "c-i-c".

Q3 Yes – as we have seen recently the commission's powers relating to bi-lateral negotiations are completely negated when disputes are "resolved" bilaterally. The industry may feel that the best possible prices, terms and conditions have been reached. The users have no such confidence and certainly no transparency on the outcomes.

Q4 In ATUG's view information around the access deficit and interconnect charges, particularly fixed to mobiles are specific examples.

Q5 Yes. This should assist to promote competition and improve the operation of parts XIB and XIC. The disclosure of this information should redress the need for Merit Appeal to the ACT, and should mean Administrative Decisions Judicial Review processes should suffice.

Q6 Yes. The more informed the participants in the policy process, the better the outcomes. This should assist in promoting sustainable competition with users understanding more about the cost base for the industry.

Q7 ATUG is not clear whether this would give buyer firms private rights of enforcement as well as industry competitors.

Q8 Yes. Consumers do not need a vast amount of detailed information, rather they need a positive assurance by the ACCC that price movements are related to costs not monopoly profits. A summary of the information supporting this assurance should be available on request.

Q9 Yes. The information described in Figure 1, Table 1 and Table 2 are a start. With regard to Table 1 any telecommunications project which receives government funding should have costs disclosed eg Mobile Coverage on Highways project, Untimed Local Calls in Extended Zones, NTN projects. With regard to Table 2 additional matters might include connections data, fault costs, hotline prices and costs, flagfalls, minimum charging units, price per second, per 30 second, volume discounts, bundled discounts, access deficit information.



Q10 Information on the access deficit could assist in reviewing compliance with price controls. In addition a review of 'case study' consumers and small business could confirm whether the price cap benefits are achieved in practice given new pricing strategies of discounting only for volume and bundled buying.

Q11 ATUG is concerned about costs for international roaming. Record keeping rule information should be sought and disclosed in this area.

Q12 The commercial interests of individual players should come second to the long-term interests of end users and the explicit promotion of competition until there is evidence of sustainable and effective competition. Profitability, free cash flow and investment levels may be useful indicators. ATUG does not feel the use of theoretical economic modelling is of use now that the industry has five years real data.

Q13 and Q14 The commercial interests of individual players should come second to the long-term interests of end users and the explicit promotion of competition until there is evidence of sustainable and effective competition. Certainly the onus should be on the party seeking to deny disclosure to prove the competitiveness of a market and therefore the case for potential harm to its commercial interests. The ACCC may consider establishing a panel of financial and other experts to advise in this area if the previous suggestion is unworkable. Market share (numbers and \$\$), revenue shares, margins and profitability, price reductions, service quality improvements, innovation would all be relevant evidence of competition or otherwise.

Q15 ATUG supports open disclosure unless there is clear evidence of strong and effective competition.

Q16 Market indicator information will assist decision making by participants in the industry. Financial reports currently disclose significant amounts of market information but this information is not easily interpreted, compared or made available beyond shareholders and the financial community. Information is only being used as a proxy for competition to deal with information and resource asymmetry and to promote competition. When competition is effective. Perhaps ABS data for competitive industries may provide guidance in this area.

Q17 If data is collected quarterly then different reporting periods can be aligned. Again ABS data collection may provide guidance as to timing.

Q18 Information on the local loop is key to promoting competition, to providing transparency in decision making, to speeding up access decisions, to reducing disputation, to alleviating user concerns about monopoly pricing and price movements. It is essential that information about Telstra's local loop be disclosed in order to further promote and stimulate competition. In general any information Telstra discloses to the financial sector in its own interests in markets which are not yet competitive should be made available to the ACCC under the record keeping rules and disclosed in the interests of competition and users.

Q19 The Commission should release information at wholesale and retail levels to assure competitors and users of even handedness between divisions of Telstra compared to Telstra competitors. Figure 1 and Table 1 provide a good outline of suitable information.

Q20 In the interests of transparency the Regulatory Accounting Procedures should be released on request.

Q21 Information on the local loop should be released publicly in summary form to enable consumers to be confident that price increases are cost justified and to enable large users to negotiate on a proper basis with Telstra.

The impact of ownership of the fixed network on costs, prices and profitability is significant. Therefore, access seekers should be provided with detailed information to overcome information asymmetry problems and to promote competition.

Q22 ATUG believes the ACCC should continue to use record-keeping rule data in its administration of the regulatory framework – Parts XIB and XIC of the Trade Practices Act. ADSL is a very good example of the effectiveness of this approach a part of a strategy to ensure control of the local loop was not used to deny access to competitors. Market and service data combined with the financial data will give the ACCC a comprehensive basis on which to make decisions that promote the long-term interests of end users.

## **Attachment 7**

### **Comments on ACCC Draft Guide on Resolution of Telecommunications Access Disputes**

The use by the ACCC of its information powers is critical to achieving the goal of promoting the long-term interest of end users, whether by declaration, determination or case management processes. Information is the strongest regulatory tool for achieving the incentives needed to make the access regimes effective.

In general, ATUG's conclusion of progress after 5 years of competition in telecommunications - designed to promote the long-term interests of end users and the efficiency and international competitiveness of the Australian telecommunications industry - is that there remains an over-emphasis on process rather than outcomes and that sustainable competition has not been achieved.

There are a number of tensions between policy objectives and practice in telecommunications:

- a) A privatised incumbent operating in a competitive industry will always focus on maximising shareholder returns
- b) The "industry self-regulation" approach to competition policy is not effective in dealing with end-user issues
- c) In practice, the focus on process rather than outcomes has led to delay rather than decisions
- d) In practice the focus on infrastructure (facilities) competition rather than services competition has resulted in wasted capital and a negative reaction from the capital markets
- e) The size and spread of the market have created difficulty in diffusing competition beyond the CBDs. Progress has only been achieved by direct Government funding

In de-regulating the telecommunications market, the desired policy outcomes were long-term interests of end users, efficiency and international competitiveness of the Australian telecommunications industry.

Four factors have guided development in the telecommunications industry – technology, regulation, financial interests and market needs. These factors are interdependent, each influencing the other dynamically and iteratively.

Development of Australia's telecommunications services is essential for social and economic development. Telecommunications is a "utility" for its end users – there is no option to not have "the phone".

## Technology

The technologies of relevance are broadband transmission, wireless, 3G ,and IP based switching networks. Many of the issues around access and interconnection pricing, terms and conditions will arise afresh as these new networks are developed.

## Regulation

In 1991 de-regulation was introduced. In 1997 open competition was permitted because of the benefits this would bring to users in terms of price, service and innovation. These outcomes have been achieved to varying degrees, but regulation has been an important factor in this result. Competition seems increasingly fragile and needs continued regulatory support to ensure the gains made do not disappear.

## Financial Sector interests

The interest of the financial sector in the industry since 1997, when T1 was issued, has had significant influence on industry directions. It has also created unforeseen tensions between the interests of the shareholders and the interests of the end users. In 2001/02 the capital market is saying: reduce capex, improve earnings and cut costs. The impacts on users will be higher prices, reduced levels of service and possibly delayed innovation. Capex levels have been relatively static over ten years.

## Market Needs

Market demands are changing and will create opportunities for the industry. Wireless and internet services are clear examples. Well-priced value added services also present opportunities. The key learning from the market over the last five years is that customers want one bill for communications services. this has important implications for competition policy. Service based competition must be supported with regulation so that end users can choose between bundled offerings from a range of service providers. The market has doubled in size from 1995 to about \$26 billion. On average residential spend has grown faster than the market overall. Households now spend on average \$1380 pa on communications services. The Top 500 companies have doubled their communications spend over the last seven years.

There are four key issues for ATUG in reviewing telecommunications policy in 2002:

- 1) competition is not yet robust or effective in all market sectors
- 2) there is no evidence that investment is at risk from over regulation
- 3) access to fixed network services should be open, speedy and transparent
- 4) long term interests of end users must remain central to the objectives of the legislation

Taking these in turn:

1) Competition is not yet robust or effective in all market sectors

When Telstra has 75% of the industry revenue, spends 67% of industry capex but earns 95% of the industry profit, ATUG's conclusion is that competition framework has not yet been fully effective. This pattern does not appear in any other industry in Australia.

This financial asymmetry, coupled with information asymmetry and ownership of the core asset of the industry, creates a massive on-going competitive advantage for Telstra. Telstra, through the process of bilateral commercial negotiation, is in a position of having great detail about all its competitors. None of them has a similar knowledge base.

Recent commercial settling of arbitrations was driven in ATUG's view more by investors' need for certainty than by commercially satisfactory outcomes. The evidence is that all Telstra's competitors are, almost certainly, paying higher prices than an arbitrated process would have delivered, with the result that end users are paying higher prices than they need to.

An unexpected consequence of this is that information relating to these "commercial settlements" is not available publicly, reducing even further the availability of this information to access seekers in their negotiations with access providers.

It remains to be seen whether the ACCC will be able to address the problem of information asymmetry more effectively via public disclosure of information collected via the telecommunications record-keeping rules or under the new powers recently suggested by Senator Alston in further amendments to the Trade Practices Act.

The increasing use by Telstra of its fixed network services in bundled offerings, when none of its competitors can provide a comparable competitive offering, means that, at the very least, regulatory support for open, speedy and transparent access to fixed network services must remain in place.

Since Telstra is part-privatised, solutions such as structural separation are difficult and the practical reality of self-regulation, supported by light touch regulation in an industry where significant commercial interests exist, is questionable. Regulation is still needed to promote competition, even where facilities competition is in place, because of the need for any to any connectivity.

Reporting, disclosure and record keeping rules are important regulatory tools. In particular the issue of equality of treatment by Telstra of Telstra Retail vis-a-vis its competitors, is a matter where the ACCC should be proactive and public disclosure of information is important to ensuring competitive fairness.

## 2. Investment is not at risk from over regulation

ATUG does not accept the argument that investment levels are a proxy for the competitive strength of the telecommunications market, any more that we accept that numbers of carrier licences per se are an indicator of competitive sustainability.

A number of policy options currently under consideration are based on an over emphasis on the theoretical regulatory risk to investment. ATUG sees no evidence to support this concern.

In reality there has been little change in Telstra's capex spending since 1996. In ATUG's view the time for decision making on the basis of economic theory is over – there is sufficient actual information now about investment and returns to use facts rather than theory in deciding whether and how to amend the regulatory framework.

Since 1991 over \$55bn has been invested in the Australian telecoms sector. Telstra has spent \$37bn or 67% of this. Telstra currently earns 49% EBITDA and 95% of the total industry profit. Clearly, none of its competitors remotely approach these levels of investment and performance. It is therefore hard to see evidence of the regulatory risk that formed the basis for many of the Productivity Commission's recommendations in its Review of Telecommunications Regulation.

Recent reaction by the investment community is, in fact, to what it sees as **over** investment in capex in the telco sector, based on expectations that have not been met for adequate, timely returns.

Investment per se and carrier licences do not by themselves indicate a robust market. The real test of competitive strength is whether the companies concerned are generating cash to pay debts and dividends and to fund expansion. After almost five years this has not been achieved in telecommunications.

## 3. Access to fixed network services should be open, speedy and transparent

The central policy problem as at 2002 is that the Access Regime as implemented and as amended in 2001 has not yet achieved open, speedy and transparent access to fixed network services. Recent research by ATUG (May 2002) into Top 100 users of telecommunications reveals that the core network is a very significant commercially valuable asset (it is a strong factor in the buying practice of this group, which spends about \$5 billion on telecommunications per annum). The current access framework leverages this asset further through its insistence on commercial negotiation – when there is no real incentive on the access provider to do so. This has not been ameliorated by the ACCC using its information powers or dispute resolution processes due to the strong preference to date for commercial negotiation. Reality suggests a different approach is needed – as suggested in the Review of Telecommunications Arbitration Processes Report. Arbitration should be used as an incentive to achieve true commercial settlement of disputes. For

example arbitrated decisions should be fully, publicly disclosed and the process open to public observation.

An alternative approach, that ATUG has previously suggested, is to develop a framework for **Services of National Significance**, which would forestall most future disputes by ensuring services that are critical to robust, effective competition, such as PSTN interconnect and ULL access, are supplied on pre-determined terms and conditions without the need for extended negotiations and time-consuming arbitration and review.

The ACCC would conduct a public process to consider the declaration of certain telecommunications services to be Services of National Significance. In the event of the ACCC making such a determination, it would be required to determine with expedition the terms and conditions (including price) of the supply of these services to access seekers.

This approach could address in a systemic way issues of delay and lack of transparency which have been experienced over the last five years. This is important to the development of sustainable, service-based competition with the benefits to price, service and innovation that a competitive market brings.

Central to this idea is a pro-active and transparent approach for the ACCC.

#### 4. Long-term interests of end users must remain central

In ATUG's view, the commercial interests of individual players should come second to the long-term interests of end users and the explicit promotion of competition until there is evidence of sustainable and effective competition.

7.2.1 in the draft Guidelines discusses the Commission's view of the interests of end-users – "...likely to contribute towards the provision of goods and services at lower prices, higher quality or towards the provision of greater diversity of goods and services." ATUG believes this view needs to shift to the clearer position that long-term interests of end users will be served by cost-oriented pricing for both competitors and consumers.

ATUG also believes that long-term interests of end users will be better served by transparent setting and public disclosure of prices and price-related terms and conditions for access. The ACCC should set benchmark prices for all network-related services at the one time, every three years. This will reduce the possibility for shifting costs between services and over time. Service by service, negotiated and then arbitrated determination of prices which are not disclosed leads users to question whether their long-term interests are being protected.

## Attachment 8 –

### **ATUG Report on CommunicAsia 2002**

CommunicAsia in Singapore provided an interesting perspective on what's happening in telecommunications. On the showroom floor – it was mobiles. In the seminars it was e-business.

SingTel launched its mobile to fixed SMS service at the show and its Cab Booking service. Customers can use their mobile phone to book a cab through an automated system that uses the caller's location to identify his location. The user receives an SMS listing up to 10 pickup points within 500 metres of the base station such as taxi ranks and landmarks. The user selects the preferred pick-up point and makes the booking. An SMS is sent within 30 seconds telling the users the cab's numbers and estimated arrival time - all for S50c.

Nanyang Online - part of Malaysia's Nanyang Press group - outlined a comprehensive business model using SMS and mobiles using re-purposed editorial and targeted advertising material, to build communities of customers and merchants and new revenue streams. SMS and mobiles are used to book and pay for advertising with significant cost savings in ad preparation. Malaysia has 2 million Internet users and 9 million mobile phone users, making the focus of e-business clearly on the mobile space.

The youth market is the key target group for SMS marketing. Asked whether SMS was more or less effective than other forms of advertising the youth market, the answer was "It's their medium of choice". SMS was claimed to achieve a 5%-40% response rate – well ahead of online advertising at around 6% at the upper end and email advertising at 15% to 20%. SMS was also being used as an authentication medium for mobile commerce transaction, achieving great reduction in fraudulent use of credit cards compared to online purchasing.

The use of SMS in e-commerce relied on the telco providing the billing service, the fact that the mobile user is registered, low priced goods or services. SMS is also being used to alert users of order placement and dispatch to provide immediate confirmation of availability and expected arrival. SMS in e-billing is being used to confirm orders, send bill reminders, accept payments. An Australian example of SMS being used for debt recovery was given – the reminder goes out by SMS, customer replies by SMS and receives a receipt number by SMS. The cost reduction is from \$8.20 for a snail mailed reminder to \$1.50 for an SMS processed reminder.

The keys to this of course are information management and good communications access, at the right price. One can only wonder whether current SMS pricing in Australia is helping or hindering innovation locally.

There was very aggressive marketing of next gen handsets by all the manufacturers – multimedia messaging, colour screen, video conferencing. But as Michael Powell, Chairman of the US FCC said recently at a Broadband Technology Summit in Washington:



“...true value to the economy rests not in having the palm pilot, but with a palm pilot that connects you quickly to information you need, wherever it resides.”

The focus at CommunicAsia was very much on how having fast and immediate access to information is good for business. Innovative services and more productive delivery of existing services are made possible through smart communications.

Smart communications is also very much about secure communications – another theme of the event. The conclusion was that good security means hard work for managers – technology is just part of the answer. More important are management and business processes which commit the company to managing “securely” rather than managing security. Discussion of “super worms” requiring “integrated insecticides” left ATUG wondering!

The topic of web services was also canvassed – but with more reality than rhetoric. Web services are predicted to take off as a way of linking systems, staff, suppliers and customers only when standards are clear and systems are inter-operable. The path is expected to be: companies will use web services internally, then with a trusted trading partner, then a closed interest group and finally as a part of an open web approach to business. The sentiment that cost and complexity will turn companies off web services migration reminded ATUG of David Murray comments to the World Congress on IT. Mr. Murray made the point that technology is now almost too complex to be managed and that until the costs and complexities are reduced and the returns faster and more sure, vendors should expect companies to be cautious.

CommunicAsia provided an interesting insight into business innovations built on communications technology. It was an absolutely clear demonstration of the power of technology to deliver economic opportunity, productivity and growth.