Telstra Inquiry
Submission No. 65

REGIONAL DEVELOPMENT COUNCIL
OF
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SUBMISSION

TO

HOUSE OF RERPRESENTATIVES INQUIRY INTO TELSTRA

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The Regional Development Council of Western Australia is the State's peak advisory body on regional development issues and draws its membership from the chairpersons of each of the nine Regional Development Commissions which cover the whole of regional Western Australia.

Serviceable and reliable multiple telecommunications are an integral part a modern community and business life in regional Australia. Federal Government telecommunication planners must take on the role of ensuring that the developments in telecommunications infrastructure and services are not captured solely by consumers in metropolitan areas. Regional telecommunication users must participate as equals in the information economy.

Telecommunications markets in the regional areas of Western Australia are small and dispersed. Over-reliance on private sector demand drivers will simply result in the smaller and more remote localities ending up on the wrong side of the digital divide. It is the smaller and more remote communities that have the greatest to gain from the introduction of telecommunications infrastructure, as it allows for the delivery of a range of services not currently available. That is there is a need for telecommunications to deliver a range of health and education services to regional communities which lack that immediate physical contact with the services they require.

The economic benefits at the local, regional and national level of providing access to and the take-up of new telecommunications technologies and techniques are likely to exceed those that are perceived or can be captured by the private sector. Those benefits that are neither recognised nor captured by the private sector should be incorporated into national telecommunication policies and strategies.

The telecommunications sector is at a critical point in a structural shift from monopoly to a competitive framework encompassing converging telecommunications, media and information technology sectors. This changing business environment is the backdrop for calls for the structural separation of Telstra's core network service provision and retailing activities.

The Regional Development Council does not support the structural separation of Telstra as it does not provide any benefits to regional consumers and in practice is likely to further widen the digital divide between metropolitan and regional consumers.

The key reasons for Council's view are:

- The focus of telecommunications will move to downstream services at the expense of rectifying outstanding infrastructure issues in regional areas.

- Investment in telecommunication upgrades and maintenance of regional networks will be diverted to urban centers.

- Investment in technical service infrastructure and service innovation in the regional telecommunication market is likely to be weakened.

In its submission to the recent Estens' Inquiry the Regional Development Council made the point, as did others, that much of the service difficulties experienced by regional consumers was ultimately related to either the lack of infrastructure or lower grade infrastructure in regional areas.

Telstra through the establishment of Telstra CountryWide created a single point for dealing with inter-related service and infrastructure issues and the impact of this initiative has generally been positive. However, the experience with Telstra CountryWide does not provide any support for the separation of Telstra into wholesale and retail segments.

A structurally separated Telstra would simply allow regional service and infrastructure issues to be passed backwards and forwards between infrastructure provider and service provider.

Of real concern for consumers in regional Western Australia is that the structural separation of Telstra has considerable potential to change the current provision of telecommunications that provides some sense of horizontal equity to one in which provision of infrastructure is driven by the 'capacity to pay'.

As regional markets are small and geographically dispersed, the capacity to expand local markets is small in comparison to larger metropolitan areas. As a result the commercial viability and profitability of new products and services will be considerably greater, and commercial risks lower, in the more densely populated metropolitan areas. In contrast rural and regional markets are likely to be small and marginal in terms of profitability for service providers. Moreover, there is a strong inter-relationship between the development of new services, product delivery and network capability. A separation between metropolitan-urban and regional markets increases the incentives for infrastructure providers to invest in metropolitan infrastructure but provides little incentive for investment in rural and remote areas. That is, any market segmentation will be reflected in differential rates of product development and service delivery, widening existing disparities between metropolitan and regional telecommunications customers.

The creation of a separate infrastructure entity as part of a restructured Telstra will effectively segment the marketplace into metropolitan and regional. This will further disadvantage regional communities as infrastructure investment gets diverted or siphoned to the more profitable, lower risk metropolitan areas.

This is particularly relevant for remote areas and Aboriginal communities. The Commonwealth's own study into telecommunications in Indigenous communities showed the higher cost of infrastructure combined with limited demand for services means that the commercial market is unlikely to have any significant interest in servicing remote Indigenous communities.

In short the separation of Telstra into infrastructure and service components will undoubtedly create a disparity in telecommunications investment between metropolitan and regional areas. Whilst it can argued that the implementation of funded Universal Service Obligations (USOs) can be used to overcome any disparity in investment, in practice they simply result in regional consumers at best receiving the minimum standards while metropolitan consumers receive more advanced products.

The existing 19.2 kbps data standard on the PSTN is a case in point. While large numbers of rural and remote Western Australians struggle to access the Internet at the minimum standard more densely populated areas are being offered ADSL at 512 kbps. Similarly, the Digital Data Service Obligation (DDSO), which specifies access to higher data speeds in reality simply sets a minimum bandwidth. As a consequence operating costs for the same access under the DDSO in regional Western Australia are often higher.

However, Telstra as a vertically integrated provider has invested in technological innovation within its core network in order to carry its retail product into regional areas. The spread of the availability of ISDN across regional Australia is a case in point where investment and innovation in infrastructure have led to the development of a uniformly priced retail product.

Experience in the United States of America shows that structural separation results in diminished innovation and investment in the core network. This occurs as the risks are perceived to be higher as the infrastructure providers have no integration with, or understanding of the direction of, service providers. Consequently, the infrastructure provider becomes wary of new investment and innovation in the existing core network due to fears that service providers may use alternate technologies. This is particularly the case where the network services small markets where risks are already high. In contrast a vertically integrated Telstra is able to spread the risk across its organisation.

The loss of investment and innovation has been a decisive argument against structural separation in previous examinations of this issue. For example the United States Federal Communications Commission (FCC) recognised the disincentives to investment and innovation generated by structural separation during restructuring of the telecommunications sector following AT&T's mandated breakup in the mid 1980s. The FCC abandoned proposals for structural separation for the provision of advanced telecommunications services arguing that the costs of structural separation in terms of lost innovation and ineffficent investment outweighed any potential benefits.

Regional Western Australia cannot afford any loss of innovation or investment in regional telecommunications networks. Consumers in regional areas are already on the wrong side of the digital divide as existing telecommunications infrastructure does not have the capacity to provide the same range and quality of services experienced in the metropolitan area. The vast majority of residents and businesses in regional Western Australia do not currently have access to the same standards of telecommunications service as their city counterparts. The structural separation of Telstra will not address this imbalance and has considerable potential to further exacerbate the existing disparity.

The Regional Development Council of Western Australia recommends that prior to any further consideration of any major change in structure (and ownership) of Telstra that:

- Telecommunications infrastructure in regional areas is brought up to standards that allow for the delivery of services comparable to those in the metropolitan area. That is reduce the existing digital divide, otherwise regional areas will always be disadvantaged compared with metropolitan areas.

- The Federal Government put in place regulatory and financial mechanisms which ensure that the backbone and outlying telecommunication services are maintained and developed in such away that regional residents do not become the information poor due to lack of telecommunications infrastructure.

- The regulatory framework should not only support provision of innovation and investment in the telecommunication needs of regional Australia but also provide guidelines and performance standards for wholesalers and retailers.