

Global One

Deutsche Telecom, France Telecom, Sprint

7 June 1999

Ms Margaret Di Michael
Productivity Commission
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Dear Ms Di Michael

INQUIRY INTO INTERNATIONAL TELECOMMUNICATIONS MARKET REGULATION - GLOBAL ONE SUBMISSION

I refer to our telephone conversation of Friday 4 June. As agreed I have provided Global One's submission. Please find it at Attachment A.

By way of background, *Global One* is a joint venture between *Deutsche Telekom AG*, *France Telecom* and *Sprint Corporation* of the United States. The venture was launched on 31 January 1996, with the intention of being a single, global source of voice, data, and IP needs for: multi-national business; carriers and; ISPs around the world.

Global One has:

- approximately 3,800 employees worldwide
- a sales presence in more than 70 countries
- more than 1,400 network access centers (NACs) outside the shareholder countries (Germany, France and the USA) and
- 1998 revenues of more than US\$ 1.1 billion.

In 1998 Global One also deployed a worldwide ATM network which now reaches 800 cities in 40 countries, including the shareholder home countries. In Australia and New Zealand, seven ATM NACs network nodes are planned - ATM NACs in Sydney, Melbourne and Auckland are already operational.

The company's global headquarters is in Brussels. Other key corporate locations are in: Virginia; Hong Kong SAR; China; Paris; London, Frankfurt; Bonn and; Sydney.

Please call me on 02 9290 9037, if you wish to discuss the Global One submission. The submission largely draws on the experience of Global One's head of regulatory affairs worldwide, Mr Stuart Chiron, who is based in Reston Virginia USA.

Yours sincerely

Craig Brendish
Manager
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Attach:

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*PRODUCTIVITY COMMISSION INQUIRY:
INTERNATIONAL TELECOMMUNICATIONS MARKET
REGULATION*

*GLOBAL ONE SUBMISSION
JUNE 1999*

Global One would like to make the following points:

1. Due to the liberalization of the Australian market and those of its primary correspondents (USA, New Zealand, Japan, Hong Kong/ISR, EU), the issue of excessive settlement rates and subsidization of foreign carriers/users has substantially eased. Australian carriers can now employ wholly owned circuits, IPLs /ISR or cost based settlement rates on such routes.
2. Above cost accounting rates on other routes -- which may indeed remain a problem on a number of important routes within Asia — will need to be addressed on a bilateral basis, a regional basis (PEC, APEC, ASEAN, etc) or on an international basis (via the ITU or WTO). Unilateral action via refile/hubbing is also possible.
3. In liberalized markets/routes settlement rates will be driven toward domestic interconnection rates. We already see this in the EU and on many routes to/from the USA. (This again demonstrates the need to get domestic interconnection issues right — cost-based, non-discriminatory etc).
4. Implementation issues must be successfully addressed to ensure that the benefits of liberalization and competition are enjoyed by end users, Such issues relate to whole circuit ownership and ISR. These include IPL prices (ISR), IRU capacity availability and price, cable station access and price, backhaul access and price, rights of way, earth station access and price, space segment access and prices, etc
 - 4.1 In Australia for example Global One amongst others is compelled to pay exorbitant Telstra prices for backhaul transmission as such transmission is non or weakly contested. Similarly in a number of other jurisdictions, where Global One operates, the incumbent monopolist control over the last access/transmission mile(s), often means that any competitive advantage in wet transmission is soon eroded by the monopoly pricing of dry, backhaul transmission. Further, IPL pricing to the US from Australia again reflects quasi-monopoly pricing, despite apparent contestability.
5. At the domestic retail level, until equal access is commercially supplied, there is also a continuing need to fully regulate those entities with market power, which derives from their exclusive ownership, and access to domestic, international bottleneck facilities (eg. Telstra in Australia).

6. As to specific accounting regimes, the 50/50 split of the Total Accounting Rate is the most common approach. Volume discounts and capacity models also exist. Asymmetrical rates to better reflect actual cost, are becoming more popular but data on costs is often challenged and may be manipulated to maintain subsidy flows.
7. The use of inbound settlement payments to subsidize local loop provision should generally be rejected. The subsidies should come from domestic sources, not as a tax from foreign (or indeed domestic) users/carriers.
8. An emerging issue being pressed by Telstra relates to Internet access costs. This arises primarily to reach Internet sites in the USA via IPLs instead of via some carrier-to-carrier wholesale/settlement arrangement. Due to the full liberalization of the USA market (according to WTO principles), foreign carriers can now own whole capacity to the USA or negotiate bulk capacity leases. Thus, this issue should ebb in the future. Telstra then should also pass on the benefits of this improved market access by reducing its monopoly-priced IPLs,
9. Australian consumers have benefited from the country's liberalization policies. However, consumer benefits cannot be fully realized and indeed existing benefits remain at risk, as long as Telstra continues to overcharge for domestic interconnection and for other domestic bottlenecks and delays and/or games bottleneck service provision.
10. These local distortions persist, despite the fact that most of these services and Telstra's conduct in these services' provision, has been nominally regulated since July 1997.