

International Telecommunications Market Regulation Inquiry

Telstra Answers to Productivity Commission Questions arising from Telstra's Submission at the Public Hearing on Wednesday 21 July 1999

(in response to an e-mail from the Commission to Telstra on 26 July, 1999)

1. *Information and data which would allow us to update the factual material in the position paper: in particular tables 2.1, 2.3, 2.4 and 2.5.*

Table 2.1 estimates international PSTN traffic (millions of minutes) from and to Australia for the years 1995-1996, 1996-1997, 1997-1998 and 1998-1999. The latter year is an annualised estimate based on data to April 1999. We do not have any more recent estimate for this.

Table 2.3 estimates Australian outgoing and ingoing international Internet traffic (terabytes) for the same years as in Table 2.1. The latter year is an annualised estimate based on data to April 1999. We do not have any more recent estimate for this.

Table 2.4 - We do not have any further estimate for this.

Table 2.5 shows Telstra's Internet deployment, 1999 for various countries. The following are updated figures for the same areas (as at 29/7/99).

- USA = 363Mbit/s

- Asia = 26Mbit/s+128Kbit/s

Jap KDD-6M

Jap NTT-4M

DACOM-4M

ChunghwaT.-2M

HK T.-4M

Singtel-6M

MalaysiaT-128K

- NZ = 16 Mbit/s

2. *Data about recent trends in prices for IDD and other international telecommunications traffic (transcript page 3). Which destinations have received the greatest price falls?*

Further data on prices and destinations has been provided in the Telstra Comments On the Productivity Commission International Telecommunications Market regulation Position Paper, 30 July 1999.

3. *Data to illustrate the relative importance of the cost of PSTN interconnection in the cost of international telecommunications, including recent and expected trends. (Please provide a copy of the analysis referred to on page 4 of the transcript.)*

Part 3 of the attachment to Telstra's Comments On the Productivity Commission International telecommunications Market Regulation position Paper, 30 July 1999, addresses the issue of the extent of the impact of interconnect charges on international calls. That attachment is the analysis referred to in Question 4 above

4. *In view of Telstra's comments at the hearing (transcript page 4), is table 3.3 in the Position Paper, derived from the ACCC, correct?*

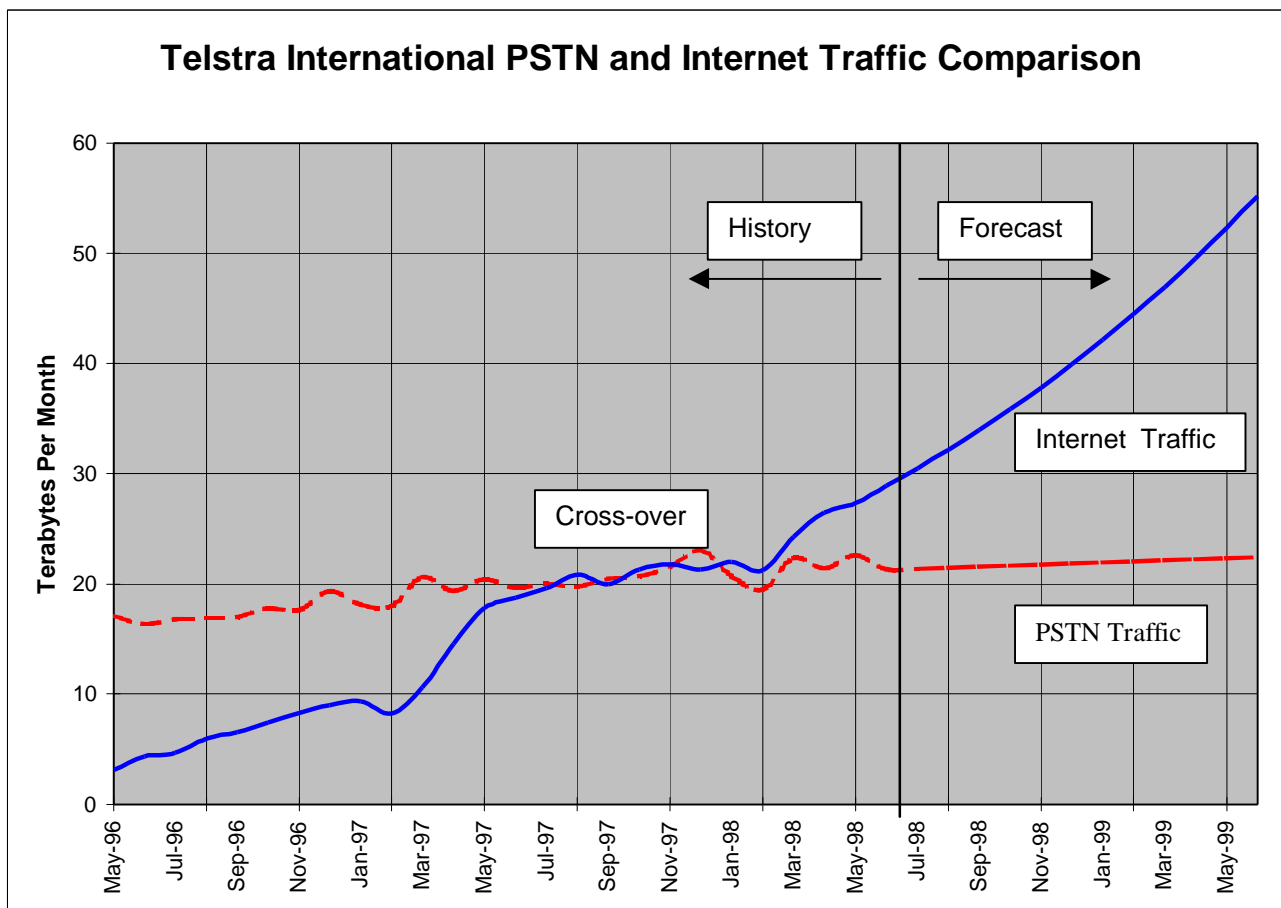
Given Telstra's Nov.'97 Undertaking rates for orig./term. PSTN (Local) Access, adding to this 10% of calls incurring an Intra Trunk Charge (4 Distance Bands, 2.5 - 11cents/min) the charges quoted in Table 14.1 of the ACCC's Draft & Final Report p45 are numerically correct. It should be noted however that this assumes a traffic profile very similar to Telstra's, where 45 -50% of long distance traffic would be rated at Country. Limited access seekers' traffic, concentrated on Metro traffic would reduce these rates to less than 3 cents/min.

On the basis of the Commission's "Final Decision" the per-minute rate would be around 2 cents/minute for a ubiquitous carrier. Again, a carrier with a predominance of metro traffic would incur an average rate of less than 2 cents/minute. It should also be noted that these latter charges include intra-CCA trunk charges.

In summary, from an access charging perspective, what is styled in Table 3.3 as a recent entrant is actually not quite this. The rate for a new entrant would be substantially lower and they would have a greater share of CBD and metro traffic (ie. less country traffic).

5. *Traffic data illustrating the increasing importance of Internet traffic, including voice over Internet traffic (transcript page 10). (Is there a meaningful way to relate PSTN traffic measured in minutes [table 2.1] to Internet traffic measured in bytes [table 2.3]?)*

The following chart is an updated comparison of Telstra's International Internet and PSTN traffic. What is shown before 30 Jun 1998 is historical data, and what follows it is the current forecast. Crossover points where International Internet traffic exceeded PSTN traffic are shown.



To the extent that it is reasonably possible to do so, the above graphical estimate does relate PSTN Traffic to Internet traffic, by using the common parameter 'Terabytes per month' as a measure. Of course there is not a full distinction between voice and data since in practice some voice traffic contains data and some data traffic contains voice.

6. *Information about the relative costs of merely owning an international cable circuit, and the costs of the provision of a transmission service (transcript page 5).*

In phonetically recording proceedings at the Public Hearing, the transcript at this section appears to have (unintentionally) altered the intended meaning of the spoken words, eg. spoken word "leased 2" Mbit/s service and, transcribed word "least to" megabyte circuit. The intended point was that it is not correct to compare an *end-to-end managed transmission service* with *ownership of capacity in a cable*.

7. *At the hearing, Telstra inferred that investments in new international cable capacity are a result of growth in demand rather than as a response to inefficiencies and distortions (transcript page 5). Is a similar situation true for Telstra's own overseas investments? For example, is its investment in Vietnam a response to growth in demand, or as a means to circumvent the inefficiencies and distortions inherent in existing settlement arrangements?*

Telstra decisions to invest in new international cable capacity are based simply on commercial decisions

8. *Any updated information about the 'excess cost' paid to the United States for Internet traffic (transcript page 11).*

No further information available.

9. *In its Position Paper, the Commission stated that the current Internet pricing arrangements between Australia and the United States are mainly due to the market power of a few large US ISPs responsible for US backbone networks (see page 61). Would Telstra confirm this or otherwise state why it cannot negotiate more commercially 'equitable' arrangements for Internet transmission and access? Given current trends for Internet traffic between Australia and the United States, at what time (if any) will Telstra possess sufficient power to negotiate such 'equitable' arrangements?*

We would suggest that the market power of the larger USA Internet networks vis a vis Non USA operators is reinforced by the structure of Internet interconnections which developed originally in the USA. This structure reflects not only the nature of Internet technology but also the lack of any agreed transactions or payments systems between major backbone providers. Interconnection problems ARE an issue in the USA as well and it could be that new models will emerge there, which may be more favourable for non-USA operators. At the moment, given the continued preponderance the USA as both a source and destination of Internet traffic and the effective absence of international cost transfers to USA operators, there is little pressure on the USA operators to change current arrangements with non USA operators.

It is not possible to accurately predict when and under what circumstances Telstra or any other non-USA operator will "...possess sufficient power to negotiate such 'equitable' arrangements." Telstra will continue to negotiate with current and emerging USA operators on the terms of our interconnection agreements and we plan to initiate collaborative efforts with other major operators

in our region to increase our bargaining power. It is too early to say how successful these initiatives will be.

In the medium to longer term, the global growth of e-commerce will probably bear significantly on this issue. To the extent that the Internet is the platform for e-commerce applications and transactions and in view of the forecast growth of e-commerce outside the USA, the predominant position of the USA will probably decline, increasing the necessity for a more equitable system.

10. *Information about recent FCC policy changes of importance (see transcript page 14). What action has Telstra taken (or can it take) to respond to the FCC finding that Telstra is a dominant player and thus subject to parallel accounting and proportionate return requirements?*

Given that Australia-US is an approved International Simple Resale (ISR) route and Telstra operates ISR agreements with USA carriers, we are not subject to the proportionate return and parallel requirements of the International Settlements Policy (ISP).

The Market Power determination only applies to those carriers operating under ISP.

3 August, 1999