Telstra Supplementary Comments

On the

Productivity Commission

International Telecommunications Market Regulation

Position Paper

(June 1999)

3 August 1999

Response to <u>Section 3.4 Payment for Facilities, Cables, Prices paid by Providers where the</u> Commission suggests that there is evidence that prices for 2Mbit/s links from Australia is higher than 2Mbit/s links from the USA, and that access to cable capacity can be difficult and expensive.

Telstra submits that the Commission's use of average standard prices for 2Mbit/s half circuit from Australia to the United States for comparison of prices is not relevant as list prices are not the actual prices that customers pay. In today's competitive market all carriers including Telstra have strong off-tariff discounts which have been used since February 1997 when Telstra was found by the then Industry Regulator, Austel, to be non dominant in the International Telecommunication market.

Telstra has been very effective in winning over 35 IPL hubbing contracts since 1992 which illustrates the competitiveness of IPL prices in the Asian Pacific market. In addition to this there is strong competition between regional hubbing countries such as Japan, Hong Kong and Singapore. Telstra is competitive in retaining hubbing business within Australia, which has a positive flow on benefits to the economy.

The international telecommunication market is also moving towards a Frame Relay / Internet environment which means that the use of International Private Leases will become less relevant. Customers will continue to migrate to a Frame Relay/Internet environment, as the quality of the service becomes more reliable. This market is extremely competitive with numerous competitors offering IP based solutions both in domestic and international market.

Response to <u>Section 4.4 Evidence of inefficient pricing payments for facilities,Direct Evidence,Leasing of Lines</u> where the Commission makes reference to Ovum Report 1998 and OECD Reports 1998 and 1999 to suggest that prices for leasing international cable capacity exceeds costs.

Telstra submits that the analysis used here is incorrect as there is no relevance to using a per minute comparison when considering the actual cost of providing international cable capacity. The cost of providing a dedicated link should be based on the cost of purchasing the IRU (Indefeasible Rights of Use) plus the cost of providing the value add to customers such as diversity options, service level guarantees, restoration capabilities, maintenance of cables, domestic plus backhaul tails and risk for owning the cable.

Based on the evidence from the Ovum report, 1998, it appears the Commission is suggesting that price differences exist between countries for leasing similar capacities and lengths of cable. Telstra disagrees with this conclusion as the comparison is made between the cost of purchasing an IRU vs an IPL which are two different products. The price of an IRU is lower than an IPL because an IRU is a raw bandwidth product without the value add of an IPL. In addition to this, by purchasing an IPL from a carrier, the risk of owning the raw bandwidth is removed. Telstra also has a strong wholesale market where there are a number of large carriers that buy international private leases from Telstra instead of going directly to the cable consortiums for IRUs. This further illustrates that Telstra's international private lease prices are competitive.

Telstra also questions the references in the OECD 1998 paper which compares the cost of a 2Mbit/s lease between USA and Australia versus the cost of purchasing a Minimum Investment Unit (MIU) which once again is incorrect as the study compares two different products. The cost of a MIU is lower than the cost of an IPL as the MIU is only providing raw bandwidth ownership versus to an IPL which provides the end to end dedicated data link which includes additional features of domestic tails, backhaul, restoration of service and service level guarantees.

The conclusions derived from the OECD 1999 paper by the Commission are based on a study which has bundled the short routes and long routes in deriving the OECD average, and has not taken into consideration the economies of scale, which some carriers achieve in providing IPLs. The conclusions are based on a study that is skewed towards shorter routes pricing and also towards countries which have better economies of scale.

Response to Section 6.6 Passing on the benefits from reform where the Commission suggests that most carriers have failed to lower the price of dedicated links or data services in line with underlying cost reductions and with the declining cost of international call charges.

Telstra disagrees with this claim as the price of dedicated links or data services has been lower than international call charges as per the table below which compares the price of an IDD call to USA versus the price of an end to end IPL to USA on a per month basis.

	Price of IDD call to USA	Price of End to End IPL to USA
64Kbps circuit	$ 20,160	$ 10,784

The assumptions are
Exchange Rate used is 1 USD = .65AUD
IPL lease
The price here is based on US half circuit (using AT&T) and Aust half circuit (using Telstra gateway 64K fibre) The domestic tail prices have not been included in these charges.
IDD price
The price of IDD call to USA is 28c per minute
Assumed that each 64K circuit is compressed at 5:1 ratio and each voice path is used for 8 hours a day, 30days a month

Competition by its nature has resulted in a reduction in prices of international calls and international private leases however this does not mean that the cost of providing IPLs has moved downwards. International Calls cost have also fallen due to changes in the accounting regimes and reduced per service marketing costs due to increasing volumes. Telstra has an investment in cable systems, which it expects a return on. In practice IDD costs are higher as there is more work involved in providing the service from breaking down the bandwidth and then delivering it to the customer in comparison to providing a dedicated link directly to the customer.

Service Providers are not required to purchase dedicated links or data services from Telstra as they are able to purchase IRU directly from the cable consortiums. They would then be required to provide the value add to this IRU to offer the equivalent of an IPL service. The number of Service Providers that have taken up IRU ownership through Telstra as a supplier has been high as seen in the table below:

	1997	1998	1999
Jasuraus IRU purchase	10.5 1/2 E1s	14 1/2 E1s	1 1/2E1s

The total capacity of the Jasuraus cable system year to date in 1999 is 880 E1s[1].

This shows that Service Providers have not been able to generate sufficient market share to warrant purchase of IRUs with their own value add. The flexibility of IPLs has better met their needs in terms of competitive pricing and the quality of service IPLs provide.

[1] An E1 is a 2.048 Mbit/s capacity