

# **AAPT Submission to the Productivity Commission Review of the National Competition Policy Arrangements**

**June 11 2004**

## **Introduction**

AAPT Ltd welcomes the opportunity to make this submission to the review of the impact of the National Competition Policy (*NCP*) arrangements and the related reforms undertaken in Australia. AAPT is commenting only on the developments in telecommunications, which were related reforms and not included in the National Policy, as it is an area exclusively regulated by the Commonwealth.

AAPT outlines in its submission to the Review of NCP Arrangements by the Productivity Commission:

- that the increase in competition in the Australian telecommunications industry has been shown by the Allen Consulting Group, in a 2002 report prepared for the Australian Communications Authority (*ACA*), to be of significant benefit to the Australian economy;<sup>1</sup> and
- that the increase in competition in the Australian telecommunications industry has been less than anticipated, and there is a growing recognition that progress towards achieving effective competition in telecommunications markets has slowed down in recent years.

The above two points leads AAPT to conclude that there is scope to enhance competition in the telecommunications industry, and any reform leading to an increase in competition, is likely to have a significant positive impact upon the Australian economy.

## **Competition in the Australian Telecommunications Industry**

The benefit to the economy resulting from increased competition in markets is well documented in economic theory and has been widely recognised in Australia by regulators, public policy makers and industry commentators. For example, the Australian Competition and Consumer Commission (*ACCC*) notes at page 39 in the *Emerging Market Structures in the Communications Sector* report that:<sup>2</sup>

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<sup>1</sup> See *Benefits Resulting from Changes in Telecommunications Services — Report for the Australian Communications Authority*, 26 October 2002. The report is available at [http://www.allenconsult.com.au/resources/ACA\\_Benefits\\_Final.pdf](http://www.allenconsult.com.au/resources/ACA_Benefits_Final.pdf)

<sup>2</sup> *Emerging Market Structures in the Communications Sector — A Report to Senator Alston*, June 2003, is available at

Addressing anti-competitive structures can foster a more efficient, resilient and responsive national economy through the positive effect that greater competition can have on product pricing and quality, promoting innovation, instilling more effective management, better use of resources and responsiveness to consumer demands.

The main reform in the Australian telecommunications industry that has assisted the development of competition occurred in 1997, with the introduction of the *Telecommunications Act 1997* and the telecommunications-specific provisions to the *Trade Practices Act 1974 (TPA)* — Parts XIB and Parts XIC. This legislation removed the restrictions on carrier licences and incorporated a telecommunications-specific anti-competitive conduct code and access regime into the TPA. As noted by the Productivity Commission in earlier reviews, the telecommunications access regime is similar to the regime introduced under the NCP in Part IIIA of the TPA. It has also formed the basis for the regulatory regime that is presently used in the industry.

## **The Benefits of the 1997 Reforms**

The 1997 reforms have had a significant impact upon the telecommunications industry. The ACCC highlighting at page 12 of the *ACCC Telecommunications Reports 2001-02* that since the introduction of competition:<sup>3</sup>

Many new competitors, technologies and service delivery possibilities have arisen. There has been some building of infrastructure, particularly in the central business districts of major capital cities and some metropolitan areas, and an increasing focus on delivery of telecommunications services to consumers. Prices for most per call services have also dropped over the last four years.

The Allens Consulting Group report prepared for the ACA, *Benefits Resulting from Changes in Telecommunications Services*, looked at the impact to the Australian economy of the telecommunications market since the introduction of the 1997 reforms. The simulation results from the MONASH-TELCO model, which compared the current situation with the base case scenario where there were no reforms or

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[http://www.accc.gov.au/content/item.phtml?itemId=337611&nodeId=file3f1f78e316834&fn=Emerging%20structures%20in%20the%20communications%20sector%20\(Jun%202003\).pdf](http://www.accc.gov.au/content/item.phtml?itemId=337611&nodeId=file3f1f78e316834&fn=Emerging%20structures%20in%20the%20communications%20sector%20(Jun%202003).pdf)

<sup>3</sup> The ACCC *Telecommunications Reports 2001-02*, April 2002, is available at [http://www.accc.gov.au/content/item.phtml?itemId=354048&nodeId=file3f45af8b27d53&fn=Telco%20report%20Part%201\\_2001-02\\_screen%20res.pdf](http://www.accc.gov.au/content/item.phtml?itemId=354048&nodeId=file3f45af8b27d53&fn=Telco%20report%20Part%201_2001-02_screen%20res.pdf)

benefits to the economy, found that the telecommunications industry reforms led to a significant boost to GDP.

In 1997-98 it was estimated that GDP was 0.14 per cent higher due to the telecommunications reforms, and grew in each subsequent year, leading to national output being 1.62 per cent higher by 2001-02. Using the size of the economy in 2002 as the basis for their estimate, The Allens Consulting Group found that a 1.62 per cent increase was equivalent to more than a \$10 billion per annum increase in GDP in 2001-02 dollars. That is, the 1997 reforms led to the Australian economy in 2001-02 being more than \$10 billion larger than it otherwise would have been.

The benefits to the economy were also broken down to highlight that the efficiency gains resulting from the reforms to the telecommunications industry led in 2001-02 to:

- a higher real wage;
- a higher level of national employment by 100 000;
- a higher benefit to households of between \$595 and \$878 in 2001-02 dollars. The overall benefit to households in the Australian economy was then calculated to have increased as a result of the reforms by an amount between \$4 398 million and \$6 490 million in 2001-02 dollars;
- small business profits being 1.67 per cent higher, or \$900 million higher in 2001-02 dollars;
- the average level of urban output being 2.14 per cent higher;
- the average level of non-urban output being 0.40 per cent higher; and
- output in the telecommunications industry being around 75 per cent higher than it otherwise would have been.

## **The Lack of Effective Competition**

The ACCC has outlined in both the *ACCC Telecommunications Reports 2001-02* and the *Emerging Market Structures in the Communications Sector* Report that although the 1997 reforms have achieved a number of positive outcomes, progress has slowed in achieving an effectively competitive telecommunications market. For example the ACCC states at page 7 of the *ACCC Telecommunications Reports 2001-02* that:

...competition has not developed as extensively as was generally expected after full competition was introduced in 1997 and that various telecommunications markets are not yet effectively competitive. During 2001-02 progress towards achieving competitive telecommunications markets slowed, with little change in the number and size of industry players and slowing price decreases.

At page 12 of the same report, the ACCC notes that the prices for telecommunication services in 2001-02 experienced the lowest percentage fall in real terms since 1998-99. A major reason identified for this failure of effective competition to emerge in Australia is that Telstra still possesses significant power across a number of markets due to its ubiquitous fixed-line local access network. In particular, the ACCC outlines that:<sup>4</sup>

- the local call and fixed-to-mobile services are far from being effectively competitive; and
- while there are signs of competition in the markets for national long-distance and mobile calls, it does not yet regard the markets for these services as being effectively competitive.

The absence of effective competition across the telecommunications markets has meant that, “consumers continue to pay higher prices and receive lower quality services across the entire communications sector than they otherwise would”.<sup>5</sup> Aside from leading to static inefficiency, this outcome is likely to have an adverse impact upon dynamic efficiency, as investments in new products and innovation are stifled. The ACCC highlights these concerns in the following passage:<sup>6</sup>

Telstra’s market power means it continues to gain strong first mover and other advantages in the supply of new services. The absence of effective competition also reduces opportunities for innovation. Telstra will largely determine the nature and timing of new technologies. It will always be concerned about cannibalising existing revenues and protecting its dominant position when making decisions about the investment in, and supply of, new services.

A further manifestation of the lack of effective competition is that rather than allowing competition to gradually emerge in the market, the regulator has been forced to make amendments that strengthen access regulation. Such intervention may not always be socially beneficial. For instance the ACCC is aware that:

- such access arrangements may impose large regulatory costs;<sup>7</sup> and
- the cautious approach it takes to regulation may lead to the ACCC setting a higher rather than lower access price.<sup>8</sup>

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<sup>4</sup> ACCC *Telecommunications Reports 2001-02*, April 2002, Page 13.

<sup>5</sup> *Emerging Market Structures in the Communications Sector*, June 2003, page xii.

<sup>6</sup> *Emerging Market Structures in the Communications Sector*, June 2003, page 29.

<sup>7</sup> *Emerging Market Structures in the Communications Sector*, June 2003, page 28.

<sup>8</sup> ACCC *Telecommunications Reports 2001-02*, April 2002, Page 13.

## **Conclusion**

The submission illustrates that there are clearly large benefits to the economy from increasing competition in the Australian telecommunications market. However, as the industry is still not effectively competitive and the pace of change has slowed, there are further potentially significant economic benefits available.

Therefore, when considering the future of the NCP, the Productivity Commission should consider the reforms to the telecommunications industry. Specifically the Commission should focus upon assessing what further arrangements need to be made in the telecommunications industry to best promote increases in competition.