

Major price falls in telephone market

Deregulation in the telecommunications market has resulted in much lower prices for most telephone services — in the past five years overall prices have dropped by 17.5 per cent.

The most startling decreases have been in international calls (53 per cent fall), national long-distance calls (23.5 per cent) and mobile calls (19 per cent).

Even local calls fell substantially in price, with most of the decrease occurring in the past two years.

Cheaper prices for consumers in fixed line calls — that is, calls that at least partly travel along copper lines — can be completely attributed to greater competition in just some parts of the industry.

'If you think of a simple phone call as a linear thing with a start and a finish,' said the ACCC's head of telecommunications, Michael Cosgrave, 'then a lot of the competition has occurred in the middle parts of the call.'

History explains how. In Australia over the past 100 years, the Postmaster General's Department and its descendants, built up a huge infrastructure called the customer access network, running a copper network all around the country.

The customer access network directly connects customers via 10 million lines to the nearest local Telstra telephone exchange. It's an infrastructure that is uneconomic to duplicate — and it's that network where competition is, as yet, unfeasible.

But not so the switches. A call that starts

in the home travels along the copper line to a Telstra switch, and from there it is taken to a point of interconnection. At that point the call can then be directed off to another switch, which can be owned and operated by another carrier such as Optus, AAPT, Primus or the now-defunct One.Tel. That is where competition has occurred in the market, and where price gains have been made. The call is only delivered back to a Telstra switch at the other end for delivery.

In 1997 the Trade Practices Act was amended to ensure that other providers could get access to services (such as Telstra's customer access network) on reasonable commercial terms. If the business seeking access believes that the conditions imposed are not reasonable, it can ask the ACCC to intervene.

Other carriers have to pay Telstra for providing access to its network which, at the moment, is about 1.5 cents a minute.

The current flaw in this compensation arrangement is the fact that it is based on timed amounts.

'If you think about it, it doesn't make much sense,' said Cosgrave. 'As you move into an Internet world where calls can last for 40 or 50 minutes, a service provider will end up paying more in compensation than it can make out of the call, given Internet calls are costed at local rates through a local switch.'

He said the ACCC would continue to review the nature of such interconnection payments between carriers, particularly given the technological advances that continue to occur — such as DSL (digital subscriber

line) technology that offers transfer of high speed data over the copper network.

The rolling out of fibre optic cable, especially in metropolitan areas, is also affecting the current debate surrounding access regulation. While the total network would certainly be uneconomic to duplicate, the laying of cable in the cities will have a major impact on how the Telstra network and services are regulated.

As the industry opens up to greater competition, further industry rationalisation is also a possibility, according to Cosgrave. During the early days of competition, many new companies enter the market — some successfully, others less so as was seen recently with One.Tel.

'From a competition perspective, you'd find plenty of people who'd say that's healthy — that's inefficient entry going out. They were just priced too low and they couldn't sustain it.'

Despite such industry consolidation over the next few years, the converging of technologies, such as telephony and video/information platforms, and new market entrants should see competition thrive. This rigorous competition will keep prices down and efficiency up, leading to better services at lower prices for customers.

