Supplementary Submission to the Senate Select Committee on the NBN
Further Research on the Failures of US-Style Telecommunications Regulation and the Need for Strong Competition

October 2008

International Analysis on Competition and Regulation

The Competitive Carriers' Coalition has in recent weeks provided to the committee several submissions, and was grateful for the opportunity to provide evidence to a public hearing of the committee in Canberra on October 8.

Since that hearing, the CCC has become aware of further important overseas research that goes to fundamental questions about appropriate regulation to support competition and investment in telecommunications markets. The CCC would like to submit these reports for the consideration of the committee.

The reports go to crucial aspects of the competing viewpoints about policy and regulatory proposals presently being considered in Australia.

The first of the reports, *Special Access Overpricing and the US Economy*, prepared on behalf of a group of corporate telecommunications consumers in the US, examines the experience in that country since the regulator adopted an approach of withdrawing wholesale access obligations from incumbent telecommunications companies. This action was taken because the regulator accepted arguments from incumbents that this would lead to duplicate access networks being built and greater so-called facilities-based competition over time.

This is the reasoning that Telstra has promoted should be adopted in Australia, specifically in relation to the regulatory approach taken to the National Broadband Network. As documented in a previous CCC submission to the inquiry, Telstra has repeatedly said other proponents should build their own access networks if they wished to continue to provide access to Australian consumers.

The report concludes that the experience in the US shows that the idea of multiple competing networks is a "fundamentally unachievable goal" and that the pursuit of it has harmed investment by competitors or potential competitors to the point where competition is not effective. Further, it says that as a result of the collapse in competitive investment caused by the removal of regulation of these businesses under the auspices of this regulatory philosophy, there has been massive overcharging by incumbents. It argues that this is impairing the ability of the US to compete internationally.

The second report, *Competition Intensity as a Driver of Innovations and Productivity Growth: A Synthesis of the Literature*, looks at research that has considered the relationship between competition, innovation and productivity, and the relative importance of small, new entrants and large incumbents as investors in innovation.

This report concludes that "the evidence in favor of more open and competitive markets as drivers of productivity and innovation is overwhelming".

Again, Telstra arguments for its preferred regulatory model rest at least in part on the proposition that regulatory arrangements to promote competition in fact prevent

investment in innovative new networks and services. Telstra has proposed that the regulatory and policy tools that have been the foundation of competitive entry in Australian telecommunications should not apply to new networks and services.

The CCC submits that the conclusions reached in these two reports provide compelling evidence that the regulatory schema that Telstra proposes for the NBN will be profoundly harmful to competition and consumers in Australia.

Again, the CCC would be happy to provide to the Committee any further material it can that the committee believes would be relevant or of use.

Please Contact:

David Forman
Executive Director
CCC Inc
david@ccc.asn.au
02 62625821