

Submission to the inquiry into co-investment in multi-carrier regional mobile infrastructure

About Vocus

Vocus, Australia's specialist fibre and network solutions provider, owns and operates Australia's second-largest regional and intercapital fibre network. In February 2023, Vocus announced that it was proposing to acquire Challenge Networks, a leading provider of Private LTE/5G mobile infrastructure. Challenge Networks designs, deploys, and operates private 4G and 5G networks for customers that require secure, reliable, high-capacity wireless coverage.

Challenge Networks has provided mobile network design and deployment services in some of Australia's most remote areas, largely for mining and resources customers in Australia's Northwest, as well as in numerous countries throughout the Pacific region.

As part of its wider network and product offering, Vocus will now integrate full turnkey private mobile network capability including site survey, spectrum planning, network design, RF engineering, vendor selection, procurement, delivery, acceptance testing and ongoing service operation and network assurance.

Executive Summary

Vocus submits that the extreme power imbalance in the mobile market has stymied the development of multi-carrier regional mobile infrastructure such as neutral-host networks, and that Government programs should mandate open-access solutions to be eligible for public funding.

This market power issue has been exacerbated by Government funding programs which have historically promoted improvements in coverage at the expense of competition. Under the Mobile Black Spot Program (MBSP), Telstra has secured Government funding for nearly three-quarters of total sites – with only a small portion being used for co-location by competing carriers. This outcome has embedded Telstra's market dominance, as each round of the program has increased the coverage gap between Telstra and other Mobile Network Operators (MNOs), reducing the ability of competing MNOs to access such subsidies to expand their own networks.

This has resulted in an investment environment which has seen only limited use of multi-carrier infrastructure sharing models – even on sites which are largely funded by taxpayers – primarily due to the coverage dominance of a single carrier which has limited, if any, incentives to share infrastructure with other MNOs.

After completing the acquisition of Challenge Networks, Vocus will have the capability to provide neutral-host, open-access mobile network infrastructure to any MNO. Vocus is also the first major telecommunications operator to sign a reseller agreement with Starlink, enabling it to provide high-speed, low-latency, Enterprise-grade Low Earth Orbit (LEO) satellite services in Australia – ideally suited to the provision of backhaul for remote mobile sites where deploying fibre or microwave backhaul is economically unviable.

The factors preventing multi-carrier network deployments are not technical in nature, nor are they related to facilities access regulation. They are commercial, being the result of this market power imbalance which has been compounded by ongoing Government subsidy programs that benefit the largest network operator at the expense of competition, and thereby only benefit users on that network.

Response to the Committee's Terms of Reference

In its ongoing Regional Mobile Infrastructure Inquiry, the ACCC has stated that: *"Infrastructure sharing allows greater efficiencies or economies of scale to be pursued, resulting in lower costs. However, this is often balanced against the competitive advantage derived from having the greatest mobile coverage to attract customers and revenue."*¹

The market reality is that the largest operator with a significant coverage advantage has little, if any, incentive to pursue infrastructure sharing opportunities – despite the clear benefits to the Australian public – as these would reduce its market power and provide a coverage benefit to competitors.

To date, the MBSP has not provided sufficient incentives to encourage infrastructure sharing models on funded sites. Vocus agrees with the ACCC's submission that co-contribution programs should have clear objectives to expand coverage, promote competition, and maximise choice of providers.² As the ACCC's submission notes:

*"the extent to which the MNOs actually co-locate on Mobile Black Spot Program funded sites has been limited. ... as at January 2022, only 9 per cent of active mobile sites funded under the Mobile Black Spot Program have more than one MNO operating on them. This means that while the Mobile Black Spot Program has delivered improved mobile coverage in many regional and remote communities, those improvements are largely only accessible by the by the subscribers of the successful applicant's network, rather than available for all end-users."*³

The Commonwealth Government has opened applications for the latest funding round of the MBSP, however, Vocus submits that the program guidelines are unlikely to sufficiently incentivise multi-carrier infrastructure sharing due to this market power issue.

Vocus submits that Mobile Network Infrastructure Providers (MNIPs – that is, companies which are not Mobile Network Operators themselves, but which provide infrastructure to support one or more MNOs) seeking to participate in the Mobile Black Spot Program are at a significant disadvantage to MNOs, and accordingly, applications based on a multi-carrier neutral-host model are unlikely to be successful under the current approach.

MNIPs have an economic incentive to provide neutral-host networks as they benefit from multiple MNOs utilising their infrastructure, and would not lose any market advantage as the same coverage would be equally available to all MNOs. However, under the program guidelines, the onus is placed on MNIPs to secure commercial agreements with one or more MNOs to be eligible for funding:

*"MNIP applications must be accompanied by written evidence of intent from at least one national MNO, that offers national mobile coverage, to enter into a commercially binding commitment to use the infrastructure to deliver mobile services."*⁴

This requirement should be removed. MNIPs should not be required to commercially contract with MNOs which are likely to be competing with them in applying for funding. While the proposed approach is designed to avoid any risk of new infrastructure being left unused by an MNO, it does not take into account the market power dynamics of the mobile industry which has resulted in no successful multi-carrier, neutral-host, or active sharing models being deployed in the Australian market to date. The success of neutral-host infrastructure sharing trials has been hampered by one or more MNOs refusing to participate.

The ACCC's submission to this Inquiry has noted that: *"co-contribution programs could potentially seek to promote competition by adopting other models to co-location such as: a*

¹ Regional Mobile Infrastructure Inquiry Consultation Paper, page 15

² ACCC submission to the Standing Committee on Communications and the Arts, Inquiry into Co-Investment in Multi-Carrier Regional Mobile Infrastructure, 14 November 2022, page 12

³ ACCC submission to the Standing Committee on Communications and the Arts, Inquiry into Co-Investment in Multi-Carrier Regional Mobile Infrastructure, 14 November 2022, page 5

⁴ Regional Connectivity Program Round 3 (including Mobile Black Spot opportunities) Grant Opportunity Guidelines, page 13

neutral host model, where funding is awarded to a non-MNO infrastructure provider who can then provide wholesale services to all MNOs. The neutral host should be provided with incentives to collaborate with as many MNOs as possible.”⁵

Vocus submits that this approach should be reversed: MNOs should be provided with incentives to collaborate with neutral-host providers. Neutral-host providers are already incentivised to collaborate with as many MNOs as possible – it is in their commercial interest to have more than one MNO utilise the infrastructure. These incentives are also aligned with consumers’ interests in having a choice of providers, as MNIPs will look for sites with coverage gaps for more than one MNO to maximise their commercial returns.

In contrast, as we have learned from previous rounds of the Mobile Black Spot Program, MNOs have limited incentive to work collaboratively with neutral-host MNIPs as this would, particularly in the case of the largest network provider, reduce their coverage advantage while improving the coverage of their competitors. New policy interventions are necessary to change the status quo. Government funding should be allocated in a manner that maximises the likelihood of it being used to extend coverage for at least two, and ideally three, networks – rather than one. Vocus submits that public funds should be used efficiently, for the public good – not private gain. The Mobile Black Spot Program could nominate certain areas that only qualify for funding if shared solutions – such as neutral-host models – are deployed.

New mobile sites constructed with public funds should include an obligation to provide open-access services with equivalent pricing. Additionally, consideration should be given to establishing a requirement on MNOs to utilise publicly-funded mobile infrastructure in areas where they do not already provide coverage. This would circumvent the market power issue where the three MNOs have historically avoided working cooperatively with MNIPs to construct and utilise neutral-host infrastructure, and would ensure that publicly-funded sites are used to deliver mobile coverage from all major MNOs. Such a requirement could potentially be established via carrier licence condition or similar regulatory instrument.

In summary, experience shows that MNOs have little incentive to work collaboratively on neutral-host or active sharing arrangements, and that the design of previous Government funding programs has also failed to successfully incentivise multi-carrier solutions. To remedy this, certain areas could be selected that only qualify for funding if multi-carrier solutions, such as neutral-host models, are deployed. Vocus submits that publicly-funded mobile infrastructure should be required to operate on an open access basis with equivalent pricing, and that consideration should be given to a requirement on MNOs to utilise such infrastructure. This approach would overcome the extreme imbalance in market power which has, to date, resulted in public funds overwhelmingly going towards the expansion of a single mobile network in regional Australia.

⁵ ACCC submission to the Standing Committee on Communications and the Arts, Inquiry into Co-Investment in Multi-Carrier Regional Mobile Infrastructure, 14 November 2022, page 6