

SENATE SELECT COMMITTEE ON THE NATIONAL BROADBAND NETWORK

Written Questions on Notice

Inquiry into the National Broadband Network

1 October 2009

Parliament House, Canberra

Mr Bernard WONDER

QoN No.	Hansard Page Reference	Senator	Question	Status
1	27	Senator Lundy	Senator LUNDY—I would like to place on notice a question as to the Productivity Commission's views about the impact on consumers of vertical integration and horizontal integration within the telecommunications sector in Australia and what some of the observations of the Productivity Commission have been with regard to industry structure over the years. Mr Wonder—So you would like me to pull together the work that we have done in that area and make it available to the committee? Senator LUNDY—Yes, that would be helpful. Mr Wonder—I am happy to do that.	Unanswered

Answer

The Commission considered the issue of structural change in the telecommunications sector as part of its 2005 inquiry report *Review of National Competition Policy Reforms* (Report No. 33, Canberra, pp. 238-247). The conclusions reached at that time are not necessarily valid today due to significant changes in the telecommunications market environment since the time of the NCP report.

At the time of the NCP report, the Commission's view (pp. 239-241) was that vertical changes would have some benefits, for example by making it easier for regulators to identify anti-competitive behaviour. However such changes would also have efficiency costs, and the transaction costs of full vertical structural separation would be large. The Commission therefore concluded that:

... such transaction cost considerations now tip the balance against the full vertical separation of Telstra, regardless of the intrinsic merits of a separated structure in a 'greenfields' situation. However, given the continuing concerns about Telstra's capacity to discriminate against its retail competitors in the provision of network services, greater operational separation is worth further consideration. Though the potential benefits would be smaller than those on offer from full vertical separation, so too would be the attendant efficiency and transaction costs. (p. 242)

In regard to horizontal changes, the Commission observed (pp. 242-244) that, while overseas evidence suggests that the case for horizontal structural change is stronger than for full vertical structural separation, it was still far from clear that such changes would deliver a future net benefit in an Australian context. The Commission noted that the introduction of a formal access regime for content was worthy of further investigation.

The 2005 NCP report is also summarised in the Commission's 2008 *Submission to Infrastructure Australia's National Infrastructure Audit* (pp. 14-17). Finally, the Commission's 2001 inquiry into *Telecommunications Competition Regulation* (Report No. 16, AusInfo, Canberra) provides further useful detail on the sector that may be of interest, but does not address the issue of structural separation directly.