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Senator Mary Jo Fisher
Chair
Senate Select Committee on the National Broadband Network
Parliament House
Canberra

Dear Senator Fisher

Thank you providing the CCC with the opportunity to present to the Senate Select Committee earlier this month. I hope that the material was of interest to the members of the committee.

I would like to draw your attention to a draft decision released by the Australian competition and Consumer Commission last week, after the CCC's presentation to the Committee, which provides important additional evidence of the serious decline in competition for telecommunications services and the harm to consumers.

The ACCC on November 14 released a report discussing its proposed approach to the regulation of the wholesale price of calls from fixed line telephones to mobile phones.

The Commission noted that, since it began regulating the price of this wholesale service in 2004, it has reduced the regulated wholesale price from about 21 cents per minute to nine cents per minute. This is a fall of more than 57 percent.

When it introduced regulation and began these wholesale price reductions, the Commission expressed the expectation that consumers would benefit because

competition would force down retail prices by a similar amount. However, the Commission has now had to concede that this has not been the experience. In fact, the Commission reports that Telstra has been **increasing** retail prices and pocketing a windfall gain from lower wholesale prices, so little competition does it face.¹

The Commission has now decided it has no choice but to approach the Government and ask it to consider imposing a price cap on fixed to mobile retail call prices.

Retail price caps were intended as a transitional measure to protect consumers as competition was introduced after the opening of the communications market to full competition in 1997. It was expected that price caps would be phased out relatively quickly as competition made such market intervention regulation unnecessary.

The Commission's request to the Government is therefore tantamount to an admission of defeat. The Commission has passed the buck back to the Government to ask it to impose an old style regulation device to protect consumers because the Commission cannot see how it can make competition effective. This is a direct result of Telstra's market power, derived from its ownership of the copper access network that connects every home and business in Australia to communications services.

The CCC submits that this development underlines that the imperative for the Government in addressing the National Broadband Network bids in the coming months must be to address this market power issue.

Only through the separate ownership of the new access network can the problems arising from Telstra's market power be properly addressed.

Yours Sincerely

David Forman
Executive Director
CCC Inc

ⁱ Telstra Residential and Business Fixed to Mobile Prices Are Rising while Wholesale Costs have More Than Halved

