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Committee Secretary
Standing Committee on Communications, Information Technology and the Arts
House of Representatives
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Submission to the Inquiry into Structure of Telstra

I make this submission in my capacity as a concerned citizen who has worked in the networking industry for 33 years. I am an electrical engineer by training, and have been the founder and CEO of two data networking companies, both of which have been sold to US public companies. Most recently, I have worked for Cisco Systems Inc in a business development role.

Australia's future economic growth depends on availability of a wide range of innovative, competitive telecommunications products and services. We cannot pick one organization to provide all the required services, but rather we should ensure that there is a level playing field where many organizations can introduce services and compete.

In the telecommunications industry, there is a natural monopoly for the infrastructure that is the cabling in the street between the business or residential consumer and the first building that can house telecommunications equipment, known as the "last mile". Access to this infrastructure should be available on a non discriminatory basis to all service providers, to ensure a fair and competitive environment for telecommunications services to the end users. This cabling in the street is analogous to the public access to the roads that we all take for granted, as is pointed out in Mr Lindsay Tanner's May 2002 discussion paper.

Currently, Telstra is the provider of the "last mile" infrastructure, as well as the provider of end user services using that infrastructure. It also provides access to its infrastructure and products on a wholesale basis.

I submit that there are few examples in the telecommunications industry worldwide where the one organization can act both a wholesaler of infrastructure on a fair and non discriminatory basis, and also a retailer of services using that infrastructure. Three major distortions occur:

1. There is an overwhelming desire to give the retail part of the organization preferential treatment to allow it to compete on an "unfair" basis.
2. There is an overwhelming effort to allocate (or shift) costs to the infrastructure part, to make the wholesale cost as high as possible, and thus disadvantage the other retail service providers.

3. There is a dampening effect on investment and innovation by the monopoly organization when it knows that its developments must be shared with its competitors. This slows innovation and product availability.

The recent and ongoing USA experience with Local Exchange Carriers (LECs) provides compelling evidence. The Incumbent LECs (mostly the regional Bell operating companies) have been required to give access to their facilities to other, new, Competitive LECs. Most of these CLECs are now in bankruptcy, at least in part due to the high cost of access to the infrastructure. In addition broadband services have been slow to be rolled out, because of lack of investment by the ILECs.

Telstra is currently a monopoly, controlling the infrastructure and dominating in the retail services. Despite any service and access agreements, if it were to be privatized in its current form it will continue to act as a monopolist, with the three negative outcomes described above. The USA experience demonstrates this.

I believe that it is essential for Australia that there is a regulated telecommunications infrastructure provider that sells to other service providers on a fair, non discriminatory basis, and that has no value added products, nor retail sales itself to either business or residential consumers. I believe multiple service providers should compete with products to the end users, including local and long distance phone services, and data services including broadband to the home.

This means that Telstra should be split horizontally into a basic "last mile" infrastructure company (LoopCo), and a retail service provider (NewTelstra). LoopCo can either stay in the public hands, or could be a closely regulated independent company. NewTelstra should be completely privatized, and should be unregulated. While NewTelstra would still be the dominant service provider, the other existing service providers (eg Optus, AAPT etc) would compete on a level playing field with the same infrastructure cost as Telstra. The opportunity would be available for new entrants with innovative products, also on a level playing field.

There should be no common ownership between LoopCo and NewTelstra. LoopCo should sell the basic infrastructure on a non-discriminatory basis to all service providers.

This structure will generate the widest range and most competitively priced telecommunications services, and will provide the most economic benefit to Australia. If Telstra were to be privatized in its current vertically integrated monopolistic form, it will restrict the services available to the Australian users, and will provide them at higher cost. This will have a significant negative economic effect for many years and will damage Australia's economic competitiveness.

Sincerely,

Paul A. Wood

