

## Submission to Regional Telecommunications Inquiry

July 2015

### About Macquarie Telecom

Macquarie Telecom was founded in 1992 and focuses on the medium sized business and government markets for telecommunications, secure Internet, data hosting and cloud computing services. It is listed on the ASX and has invested heavily in telecommunications network and state of the art data centres.

Macquarie acquires access to wholesale networks and services to ensure it has national fixed line coverage beyond its own network, and acquires wholesale services from all three mobile network operators to meet the communications needs of businesses in an increasingly converged communications market. By maintaining wholesale arrangements with all mobile networks operators, Macquarie Telecom is able to balance coverage and cost to provide its clients the best possible value for money.

The medium sized businesses that form Macquarie Telecom's target market typically employ 100-2000 staff, and operate across multiple locations. These are businesses that historically have been poorly served by incumbent telcos because, while they have complex needs, they also have limited resources to manage their own communications and secure data hosting needs in an environment of rapidly changing technology and opportunities.

These businesses also represent a profile commonly found among the larger business employers in many regional Australian towns. These are businesses that are responding to the impact of rapidly changing technology but with constrained internal resources and expertise. They participate in retail, health, manufacturing, wholesales, services and many other industry sectors. The common characteristics are size and communications needs, not industry sectors.

A good example of the type of business Macquarie Telecom works with is [MaxiTRANS](#), a specialist supplier and manufacturer of trailer and transport equipment based on the outskirts of Melbourne. It has offices across Australia in outer metropolitan and regional centres.

Principles Guiding Regional Communications Policy Past experience clearly indicates that services and prices to regional and remote areas can only approach the standards of those already offered in higher density areas if there is competition for customers in those locations.

The economics of building and operating the underlying network infrastructure in locations with lower population density simply do not support duplication of networks in much of Australia.

Almost all past public intervention that has ignored this reality has been to the detriment of competition. The result has been that the persistent geographic digital divide remains a serious frustration for regional Australians. As new technologies have emerged, disadvantage has manifested in new and different ways.

The NBN encapsulates the principle of public intervention in building and owning infrastructure to ensure monopoly network elements are operated on a wholesale-only, non discriminatory basis. The NBN is intended to create a new, level playing field for fixed line competition, but is not a complete solution, especially not in regional areas.

As technology continues to change the way people and businesses communicate, new areas of disadvantage are becoming apparent in regional markets. The convergence of mobile and fixed line technologies – both within devices and through the retail bundling of services – is presenting serious new problems and entrenching service and price disadvantage for regional consumers because of the new barriers to competitive entry it is facilitating.

### Regional Communications Market Developments – Some Things Change, Some Remain the Same

The communications services demanded by businesses have been transformed rapidly by the dramatic changes in available technology and in the use of technology in the past five years.

Among the most notable has been the convergence of applications across fixed and mobile networks, of which the rapid deployment of machine to machine communications and demand for higher data download capacity have been important and growing elements.

These changes have meant both *ubiquity* of access, and network *speed and capacity* have become of ever greater importance to service providers seeking to meet business needs.

However, Telstra has been able to exercise market power anti-competitively across both these domains in regional locations, to the direct cost and disadvantage of regional businesses and consumers.

This is because there are elements of the regional communications environment and regional communications policy that have not changed and which mean Telstra's market power has endured.

Regional consumers continue to have little choice but Telstra for mobile services because Telstra continues to benefit from;

- its historical incumbency;
- its dominant retail market share across all access technologies;
- a history of subsidised rollout and maintenance of fixed and mobile networks, and;
- on-going subsidies such as the USO that are not directly associated with specific uncommercial services.

These factors have cemented Telstra's dominance, but the underlying economics of network deployment in regional areas persists as the most enduring barrier to consumer choice in large parts of Australia.

These areas of Telstra monopoly can also become the tail that wags the dog in national business markets. There is a growing requirement in businesses that staff – and some plants and equipment – are always connected. Businesses’ decisions about what constitutes coverage are disproportionately and increasingly influenced by the areas where services are not available.

### Macquarie Telecom in Regional Markets

Macquarie Telecom’s strong performance in providing service to the medium sized business segment nationally suggests that regional businesses would benefit greatly from the injection of competition that Macquarie Telecom brings to every location in which it operates.

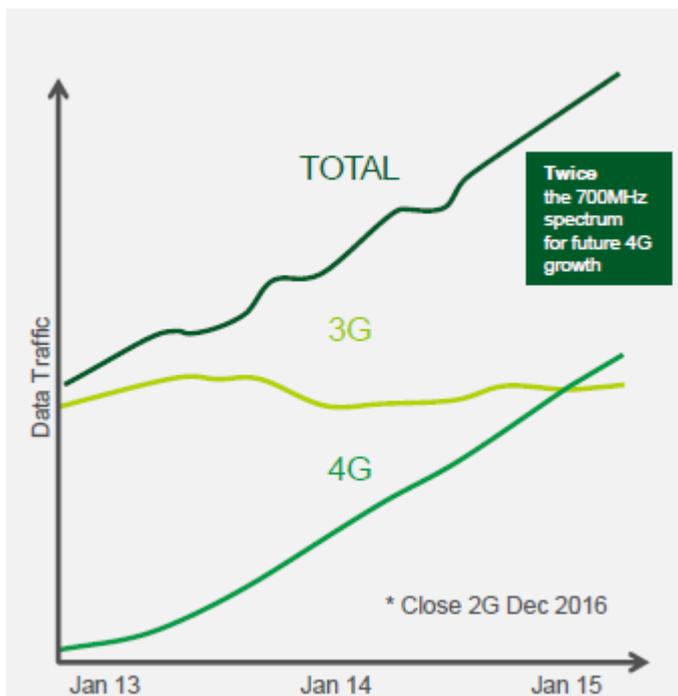
However, the combination of the on-going market power of Telstra and ineffective competition regulation means that Macquarie Telecom has had no choice but to exclude the vast majority of regional Australia from its addressable market.

A key driver of this decision has been the unwillingness of Telstra to provide wholesale access to both its 4G network and to machine to machine services on its 3G network in regional locations – locations where there is no alternative provider.

As consumers’ behaviour and business’s internal networks and applications have increasingly blurred the lines between fixed and mobile services, 4G has become a critical driver of commercial decisions about the choice of service providers for business, just as 4G is driving the consumer mobile market.

Telstra’s own public presentations confirm that all data growth in its mobile network has been growth in 4G.

Figure 1. TELSTRA DATA TRAFFIC BY NETWORK TYPE





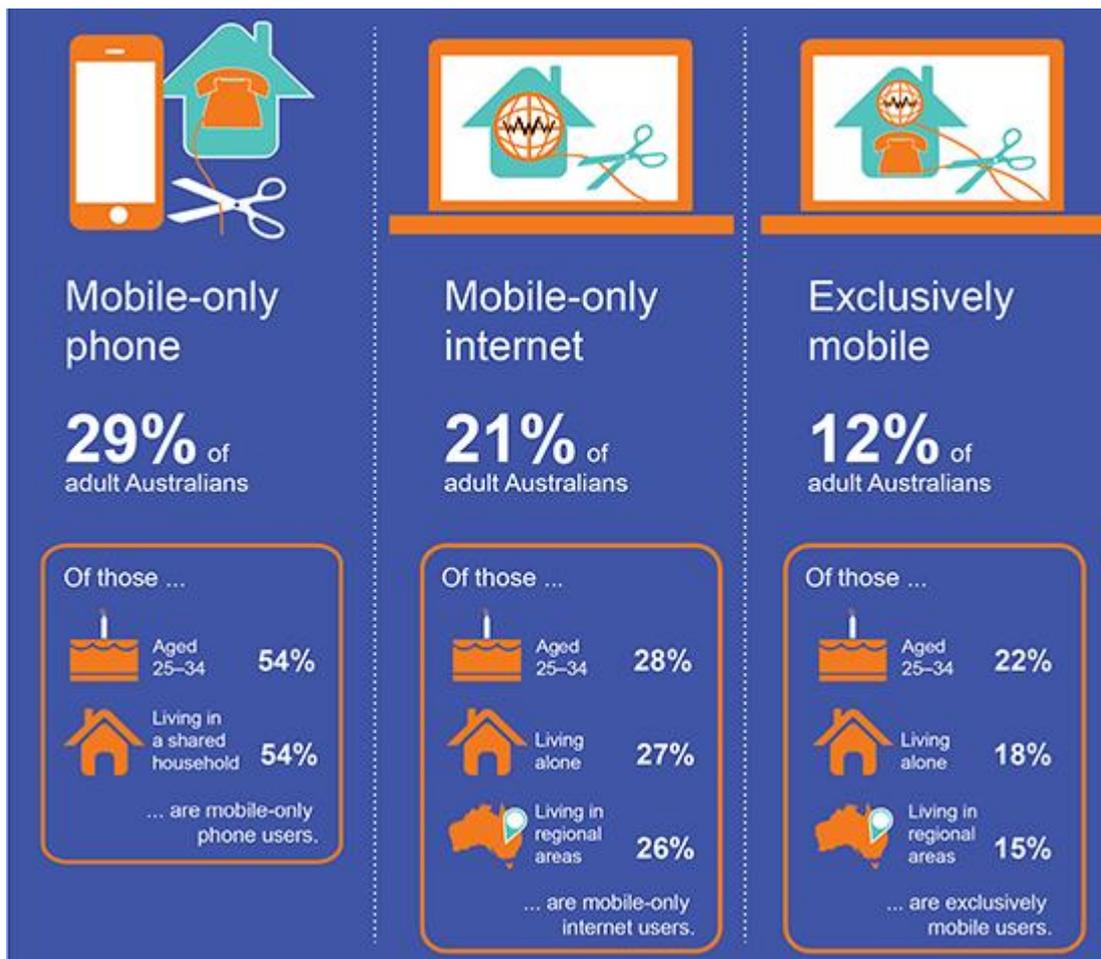
Macquarie Telecom submits that the principle of maximising competition wherever public subsidies are deployed should apply in all circumstances and on all network types. Macquarie Telecom believes that there some simple principles should help in ensuring this outcome. These are:

- that the infrastructure being deployed for the NBN should be utilised to address failures in retail markets for both fixed and mobile markets, on a non-discriminatory, open access, wholesale only basis
- that tax payer subsidies should not advantage some retail participants at the expense of others.
- that roaming, where it is not being commercially agreed, should be regulated.

Macquarie Telecom supports proposals that policy should support and encourage the sharing of privately owned infrastructure. However, in locations where public subsidies are used to encourage the extension of private networks, the competitive impetus could and should be more far reaching. These could take the form of requirements that the network operators benefiting from public subsidy are required to offer wholesale access services on an equivalent basis to that which they provide to their own retail businesses.

Such a requirement is necessary due to the convergence of technologies and the bundling of voice, data, fixed and mobile services for consumer and business consumers. It is also completely consistent with the regulation of fixed broadband networks.

As Macquarie Telecom's recent experience in business markets illustrates, there is a real risk that the anti-competitive horizontal bundling of mobile services with fixed line services will result in markets, especially in regions, being foreclosed to alternative providers, niche services and new entrants.



Source Vodafone

### USO Reform Overdue

The USO has been the subject of criticism from all parts of the industry for many years, but the developments of the past five years put it beyond doubt that the mechanism is past its use by date.

The NBN is being built as a universal infrastructure provider, and is required to offer services to minimum standard at a capped national wholesale price.

In addition, the Government is presently proposing to introduce a levy on other network providers in order to ensure they contribute to the cost of the cross subsidy required to support the delivery of the minimum service in regional and remote areas.

The USO subsidises the delivery of technologies that are rapidly moving into obsolescence even aside from the advent of the NBN, is completely opaque and acts to constrain competition by transferring money from competitors to the incumbent.

It has also proved incapable of bridging the service and price gap between regional and metropolitan Australia, largely because it discourages competitive retail entry into regional markets by entrenching and subsidising the incumbent.

We submit that the mechanisms to ensure regional Australians are able to avail themselves of adequate communications services have become confused, overly expensive, opaque and inconsistent.

This is a situation that does not serve the best interests of regional Australians and must be addressed urgently.

We submit that an obvious and logical way forward would be for the USO payment to be transferred from Telstra to NBN as NBN is deployed in each location. The subsidy to Telstra to maintain the operation of its copper network is unjustifiable at a time when it is either;

- a) being turned off in favour of HFC;
- b) being transferred to NBN and converted to FTTN, or;
- c) being overbuilt with an alternative fixed wireless network using public funds.

The USO payment effectively acts as a tax on competitors to provide support to Telstra to provide services that are no longer relevant or necessary. Removing the USO burden from Telstra and transferring it – as well as any financial support – to NBN would be a step forward in encouraging retail choice and competition in regional areas.

#### Further information

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