

## **ERICSSON AUSTRALIA – RESPONSE TO PRODUCTIVITY COMMISSION TELECOMMUNICATIONS COMPETITION REGULATION DRAFT REPORT**

Ericsson Australia welcomes the opportunity to respond to the above Report by the Productivity Commission and in general finds it a timely review of the current state of regulation for the industry and sound proposals for the future. In responding Ericsson is also conscious of the Recommendations within the Position paper – Review of the National Access Regime and the need for consistency in principles across telecommunications and other utilities.

### **BACKGROUND**

As commented in the initial Ericsson Australia submission to this Inquiry the company is a major investor in Australia. In Australia the majority of telephone calls, either fixed or mobile, are carried over Ericsson equipment. Through its Design Centre co-located at Broadmeadows and the 42<sup>nd</sup> precinct at Melbourne Ericsson is Australia's largest private sector research and design organisation.

In its original submission Ericsson made the following recommendations

- As the mobile sector of the telecommunications market is competitive (six players, falling prices, introduction of mobile number portability) "it is no longer necessary or cost competitive to continue applying telecommunications specific regulations to this market segment – continued application may act to impede or stifle some of mooted technological developments to the cost of the Australian economy as a whole."
- As a result Ericsson Australia considers that there is sufficient ground for the Productivity Commission to recommend the repeal of Parts XIB and XIC of the TPA 1974 in so far as mobile telecommunications are concerned.

As a company Ericsson generally favours an environment where the need for Government intervention is minimised in favour of general competition rules and where the market is liberalised and open. The experience of Ericsson derived from operating in 140 markets is that a liberalised telecommunications environment is essential for a product and service innovation and for a competitive industry.

For example the latest Economist Intelligence Unit/Pyramid Research places Australia second in the world in "e-readiness" based on a "regulatory regime geared to e-business".

The report states:

"A prerequisite to affordable Internet access, for instance, is a competitive telecoms market. So for countries where a monopoly provider has traditionally supplied a large chunk of state revenues, e-business cannot take flight unless the government moves boldly and firmly to liberalise the sector."

The EIU report recognises that:

"E-business simply cannot function without adequate telecommunications and Internet infrastructure. "Connectivity" measures the access that individuals and businesses have to basic fixed and mobile telephony services, including voice and both narrowband and broadband data. Affordability and availability of

service (both a function of the level of competition in the telecoms market) also figure as determinants of connectivity."

In making decisions on where to invest for research and development Ericsson favours deregulated, liberalised environments as again they support innovation and the development of products and services for international markets.

Noting this position Ericsson is broadly supportive of the direction outlined in both Reports with the principles of relying on general access principles.

Whereas Ericsson's original submission focussed on the mobile market it notes that a number of issues raised in the draft report are supportive of the position taken by Ericsson that regulatory intervention entails significant costs, especially in a market as fast moving as communications. The best approach is one of a light handed regulatory approach and where regulation is constantly reviewed to assess its ongoing relevance (of major importance in an industry such as telecommunications).

Whilst recognising the need to maintain some specific telecommunications regulation for access Ericsson strongly endorses the view that the "current regulatory processes for access to telecommunications facilities are slow and inefficient " and lend themselves to "regulatory creep". In addition given the cost and time delays of regulatory intervention (which are very well highlighted in the Report) Ericsson also supports that the "focus of regulation should be on the core bottlenecks" and the "legislated sunseting of declared services."

It also strongly endorses the arguments put forward in the Telecommunications Competition Regulation on the need to provide signals that support investment in infrastructure

## **SPECIFIC COMMENTS**

Ericsson endorses the view that telecommunications should be subject to generic policy to the greatest extent possible as this will minimise the cost of regulatory intervention and allow market forces to deliver a competitive outcome in terms of new industry entrants and price and service innovation. It is acknowledged that the current environment does support some need for continuing regulatory involvement, particularly on access arrangements but that overall the regulatory environment should be light handed.

Ericsson supports the repeal of the anti-competitive provisions of Part XIB of the TPA as it agrees that developments in such areas as reducing scope for anti-competitive behaviour through churning provisions and the introduction of number portability will enhance competition. Maintaining such specific provisions are at odds with the general competition provisions followed in most advanced economies including for example Sweden (one of the most competitive and advanced telecommunications market).

Access arrangements are a key to a competitive telecommunications sector but probably no area is more vexed in terms of pricing etc. Ericsson appreciates that the current arrangements have been the subject of considerable dispute and entailed considerable regulatory oversight and decision making. Ultimately however the best outcome in this area will be one where industry is allowed to make its own decisions about pricing etc. To resolve these difficulties Ericsson proposes

- Access arrangements only apply in those areas of core telecommunications services such as the local loop
- Introduction of legislated sunset clauses for all declared services.
- Access provisions be consistent with those applying to other market sectors captured by the general national access regime.

Ericsson was in attendance at the Access forum convened by the Minister for Communications, IT and the Arts Senator Alston on 30 May and agrees with suggestions for speeding up the resolution of disputes such as active case management, preliminary hearings, sharing of information and appointment of specialist mediators.

Ericsson has some reservations about providing a holiday for “declared services” as the benefits may not be of the nature proposed by the Commission.

Ericsson condones the nature of the discussions by the Commission on pricing and the encouragement of infrastructure build – it believes the arguments presented here are compelling and encourage a change to the way in which access pricing is structured. As the Commission notes too high an access price will discourage service based competition whilst too low prices will reduce the incentive for investment in new facilities. Some of the issues raised in this area are beyond the scope of Ericsson to comment other than to support the introduction of mechanisms that allow the market to operate or most closely duplicate the operations of the market. Ericsson supports those recommendations of the ACCC and the Commission on the removal of price controls on access charges.

## **INDUSTRY DEVELOPMENT**

Ericsson is one of the 10 largest investors in Intellectual property globally and within Australia is the largest private sector R&D organisation. Increasingly Ericsson is finding that the environment for investing in research and development is dependent on key factors such as

- Accessing skilled personnel
- A modern communications/IT network
- A deregulated and liberalised environment that supports a competitive industry structure.

All of the above three factors have been influential in the decisions by Ericsson to locate 500 scientists and engineers in Australia and to maintain a centre of competency in key technologies of the future such as advanced data and mobile applications.

Ericsson believes that a move towards industry general regulation will in the Australian context encourage further innovation in product and service development as it will further the liberalisation of the Australian market without the risk of regulatory creep. Again the comments of the Economist Intelligent Unit are relevant to this debate.

## **CHANGING NATURE OF INDUSTRY**

The nature of the Australian Telecommunications industry is changing rapidly under the influence of increasing competition and the introduction of new technologies. For companies such as Ericsson the role of supplier is changing rapidly. Increasingly Ericsson is moving up the value chain and away from being a simple box supplier to its major telecommunications customers to providing a range of value added services including installation, maintenance. Expectations are that in the future there will be more deals of the Lucent/OneTel arrangement where the supplier owns the infrastructure and leases to the service provider. This has the advantage for the service provider of minimising the call on its operating capital.

In such an environment of rapid technological and commercial change regulatory intervention can be expensive as implementation may well be for an environment that no longer exists. One only needs to compare the timeframes for the development of traditional telephony as against internet protocol to appreciate the rapidity of change and the uptake of such new technology – it has taken over a century for their to be in excess of 1 billion users of voice telephony – this level of usage for the internet was reached in less than a decade.

## **CARRIER INDUSTRY PLANS**

Ericsson notes that there are a proliferation of industry development measures applying to the broad ICT sector including the Partnership for Development Program, endorsed supplier arrangements, Carrier industry Plans etc. All such arrangements have the aim of facilitating increased investment in the Australian ICT industry.

However Ericsson strongly believes that there needs to be some consolidation of these various programs which are confusing, administratively complex and expensive and at times conflicting. Some industry participants could theoretically be subject to three different policy measures and be required to report independently. In this environment Ericsson would support the recommendation that Carrier Industry Plans be dropped and that in its stead carriers of a certain size should fall within the general provisions of the Partnership program.

Ericsson also believes that a focus on such areas as market liberalisation, competitive tax regime, development of skills, support for research etc are of greater importance in ICT industry development than retaining a procurement based program.

## **STANDARDS AND CODES**

Ericsson has been a major participant in the activities of ACIF including being represented on the Board (Alex Gosman as ATIA representative) and on various Working Groups. Ericsson believes that ACIF has worked well in a complex technological and competitive environment and that the interface with the ACA has been successful. It is increasingly important that in such areas as standards that industry be the driving force given the commercial imperatives.

## **CONCLUSION**

Ericsson believes that the Australian telecommunications market is successfully making the transition from a monopolistic industry structure to one of open competition where regulation can be kept to a minimum. Whilst not at this stage yet the Draft Report of the Productivity Commission provides a good benchmark to assess the adequacy of the present telecommunications competition regime and options for the future to ensure the development of a competitive market with associated product and service innovation.

In general Ericsson Australia endorses the recommendations contained within the draft report as providing the basis for the industry into the future in ensuring that a competitive telecommunications structure in turn enhances the competitiveness of the Australian economy.

Ericsson supports the recommendations to lessen regulatory intervention through the repeal of the anti-competitive elements of Part XIB of the TPA, as well as arrangements to improve access, focus on those areas of bottlenecks and to encourage economic network build-out.

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