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Dear Mr Woods

Thank you for sending to the Balanced State Development Working Group (BSDWG) a copy of the Commission's draft report on Telecommunications Competition Regulation.

I must apologise that BSDWG was not able to respond to the draft report in time to participate in the May Public Hearings. We were advised by the Secretariat that it would not be appropriate to participate solely on the basis of our 7 February submission.

We were surprised that the question of the 'economics of scope' was treated as a relatively new consideration. In BSDWG's experience 'scope' has been an important issue for economic, technical and operational regulators since governments decided that public and privately funded infrastructure should be subject to regulation.

Canals, including width and depth, design of locks and spacing of turning bays as well as use of the tow path; Water, for domestic and industrial use, and Waste Water, including sewerage, industrial waste and run off; Roads from Turnpikes to Tollways and Railways are all examples of infrastructure where 'scope' has frequently been an important issue.

Since the federal system in Australia is sometimes compared with that in Canada BSDWG decided that we should use Canada's experience with its railway networks to draw attention to some issues relating to the 'economics of scope' which do not appear to have been considered in the Commission's draft report.

As the Commission may be aware the Canadian Pacific Railway (CPR) reached the west coast in 1885. The second coast to coast railway Canadian National Railway (CNR) was established by the Dominion Government, during the 1920's, through the merger of a number of less successful private railways. After WW2, Newfoundland became a Province of Canada and CNR assumed responsibility for its railways.

CPR is a privately owned company, CNR a Dominion Crown Corporation. Both have been subject the same approach to economic, technical and operational regulation by the Dominion regulator since the 1920's. Since 1967 the regulator has been the Canadian Transport Commission (CTC).

There are a number of Intra Provincial Railways, they are not subject to the CTC.

With the approval of the regulator both CNR and CPR extended services and their rail networks for passenger, freight and raw materials traffic well into the 1950s. Until then the climatic conditions and, in many Provinces, the topography were such that the private automobile and the

coach did not offer real competition, other than in metropolitan and large urban areas. However trucking was already starting to be significant, not simply as competition to the railways but also because it began to offer CNR and CPR the option of consolidating depots for freight and raw materials (such as grain) on main lines rather than on branch lines.

Thus the railways which had sought to extend their networks of branch lines and given commitments to the regulator with respect to passenger and freight services and, particularly on the Prairies, raw materials had to respond to service requirements which were changing rapidly. Sometimes the business case for a branch line disappeared 10 to 15 years after the line was opened.

In parts of Canada the low levels of revenue generated by branch lines which were failing appeared to correlate with the income level of families in the community. Conversely these were the types of communities which were more dependent on trains, particularly as a passenger service.

The ultimate sanction which faced the regulator was a railway application to abandon a branch line. The railway's argument was usually that the line no longer paid its way and that a combination of improved roads (provided by the Province) and competitive low cost trucking operations (licensed by the Province) removed the justification for the line. Public hearings chaired by a senior Commissioner, sometimes by the President, were almost always held in the communities affected by the application. Very few applications were denied but the time from application to decision was almost always in excess of two years. Some of the communities affected did not survive, some were reduced to a skeleton. There was some evidence that low income families who had arrived because of the branch line moved on.

In BSDWG's opinion the relevance of this example to the Commission's analysis of the 'economics of scope' is that when consideration is given to facilitating the introduction of new technology which offers the benefits of packaging a variety of attractive(?) services but at a cost to the consumer, through the hardware installation in the home and the monthly access fee, which may not be easily funded from the family income - see submission 55 - the regulator must consider:

1. How, in the longer term, will an acceptable, but simple, service such as a telephone line be provided when/if the Telecommunications Company claims that it is no longer economic to provide the various exchanges/switches to users on the 'branch line'. The regulator must, as part of that consideration, convene public hearings, chaired by a senior statutory officer, in the communities which may be affected.
2. What happens if the 'new technology' is superseded by 'new generation technology' before the hardware installation has been paid for - see submission 55.

The discussion in Chapter 15 suggests to BSDWG that the Commission is impressed that 'many new carriers' have 'plans to deploy networks' in regional Australia and appears to assign the same, or similar, weight to those plans as it would, from personal experience, to plans in metropolitan and large urban areas.

BSDWG's experience of infrastructure plans in Regional/Rural areas is that they should always be treated with considerable caution until the money is committed and construction starts. An example from the public sector was the long promised provision of ABC Radio to the residents of Cabramurra, Khancoban and Talbingo. In 1988 the Snowy Mountains Authority decided that the local communities had been waiting long enough and, at modest cost, installed satellite receivers, BMAC decoders and translators to make ABC Radio available in all three communities.

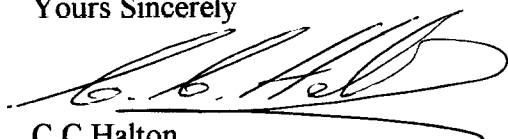
The third issue that we wish to raise, as a result of our review of the draft report, is the use in Chapter 16, pages 16.11 etc., of the Cave and Williamson 1996 paper from Oxford Economic Policy Vol. 12 to claim that there are significant economies of scope between 'telecommunications services' and 'pay TV'.

The claim is apparently based on Fig 16.1 which refers to 'Telephony' and 'Cable TV'. Although the term 'telephony' is not defined it can safely be assumed that it is as explained in the ninth (1995) edition of the Concise Oxford ie 'the use or a system of telephones'. In Australia the penetration of telephones in households is already above 96%, Using Figure 16.1 a penetration rate in excess of 40% for joint provision of telephony and cable TV is needed before economies of scope would start to favour that option. Submission 55 makes it clear that BSDWG believes that there is no sound socio economic basis on which a regulator could make decisions on the basis of regional/rural penetration rates in excess of 20% for cable TV.

BSDWG has reviewed the contents of submission 55 and does not believe that we need to make any revisions to that submission. We did of course send the Commission a corrected page dealing with median adult incomes in Regional and Rural Australia and Professor Snape is aware of some more recent data on telephone charges.

Please let me know if the Commission needs any clarification, or amplification, of any of the issues covered in our two contributions to this Inquiry.

Yours Sincerely



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