

Telstra has more tricks up sleeve

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Just because the telco rolled up its fibre plans doesn't make life easier for the competitors, argues Ross Kelso.

Yesterday's news that Telstra has discontinued its negotiations with the Australian Competition and Consumer Commission over a new fibre to the node broadband network should come as no surprise.

Just over a year ago, Telstra chief executive Sol Trujillo and his amigos jetted to Australia to remake the telco in their image. It wouldn't be hard, those Aussies simply didn't know how to play hard with the government and browbeat the regulator.

After decades of failed promises and inaction, broadband rollout in the United States was (and still is) reaching Third World status; what the telcos sought was regulatory relief so optical fibre could flood the country. Market forces would be unleashed if only telcos could monopolise whatever fibre they laid to the doorsteps of homes and small businesses.

The successful formula required lots of money: political favours, consultants and lobbyists, and US telcos had plenty of those. From 2004, politicians and the US Federal Communications Commission were browbeaten until they relented - any new fibre built out to customers would no longer have to be shared with competitors.

In his first foray, last August, Trujillo audaciously sought regulatory relief (read monopoly control) plus a \$2.6 billion contribution from taxpayers. No harm in trying. The government didn't bite.

A fibre to the node proposal was the next offering, initially mooted as a monopoly network, but whose details would be shared only with the ACCC in confidence. The public and Telstra's competitors gleaned tidbits from leaks to the media.

Telstra's advisers jetted back and forth to Australia, chopping and changing their deal and eventually relented on access to competitors, provided they paid "commercial rates" for access - meaning that a competitor would be compelled to offer a service that was no different to Telstra's at a price that would not attract customers. Telstra already knew how to wholesale network services for more than its own retail offering.

A game of cat and mouse was played with the ACCC, which realised that the proposed fibre network would simply become a new natural monopoly, offering telephony, video and data (triple play) services from the most vertically integrated telecommunications carrier in the world.

Even if it were technically possible for competitors to gain access, would there be scope for

differentiated service delivery? The ACCC was well aware of what transpired with Telstra and Foxtel after many years of regulatory gaming.

In any case, telecommunications is fast becoming a utility, and utility networks, whether they are gas or electricity or broadband, can be quite profitable with half the return on investment Telstra was seeking.

A fibre to the node network would extend optical fibre much closer to customers but thereafter exploit the long-depreciated paired copper network. What the ACCC probably realised, but Telstra wasn't ready to admit, was that much of the fibre had begun being laid in the mid-1990s and by now, it too was well depreciated. Correspondingly, charges for this new service should be lower.

So what happens now that Telstra advisers have rolled up their fibre plans and, seemingly, retreated?

The "G9" group of Australia's other carriers have put forward their SpeedReach proposal for an enhanced fibre rollout extending that of Telstra. Everyone was invited into the tent.

But the government has never empowered the ACCC to facilitate industry co-operation that would lead to what's called "greater long-term interest for end users". So SpeedReach is stillborn.

All is not lost. Strategic planning and the squirrelling away of sunk infrastructure have long been considerable strengths of Telstra. Expect to see new paired copper-based DSL products, an awakened interest in their hybrid fibre coaxial network installed for cable television and new wireless solutions.

And, ever so quietly, Telstra's fibre to the home network is being rolled out in new estates or older areas still blighted with poor-quality copper. Neither the ACCC nor competitors will bother seeking declaration, and reminiscent of the frog being slowly boiled, competitors will one day wake up to being totally locked out of Australia's next-generation fixed-access network.