

3 October 2014

Public Inquiry into final access determinations for fixed line services – primary price terms

Australian Competition and Consumer Commission

Via email: fixedservices@accc.gov.au

ACCAN thanks the Australian Competition and Consumer Commission (ACCC) for the opportunity to contribute to its price inquiry into final access determinations for fixed line services. Access to communications is fundamental to the economic and social wellbeing of consumers. Accordingly communications pricing is a major factor in determining a consumer's level of participation in society and the economy. This submission will focus on communications affordability issues faced by Australians. It is hoped that this will guide the decision on a pricing model towards an option which best promotes the legislative objective of available, accessible and *affordable* communications services that enhance the welfare of Australians.¹

The 'digital divide'

The most recent Australian Bureau of Statistics (ABS) research reports that 83% of all households have home internet access.² More than three quarters (77%) of households have access via a broadband connection.³ This leaves 1,495,000 households without internet access and 2,022,000 households without access to broadband.⁴ There is evidence that intervening to encourage greater uptake of these fixed services is good for the economy as well as providing tangible benefits to people who would otherwise be at risk from the digital divide.⁵

Income

As the ABS notes, household income remains a key determinant in a consumer's ability to access the internet. In 2012–13, 98% of households with household income of \$120,000 or more, had internet access, compared to 57% of households with household income of less than \$40,000.⁶

¹ *Telecommunications Act 1997*, section 3(1)(c)

² ABS, 2014, 'Household Use of Information Technology, Australia, 2012-13'

³ ABS, 2014, 'Household Use of Information Technology, Australia, 2012-13'

⁴ ABS, 2014, 'Household Use of Information Technology, Australia, 2012-13'

⁵ Campbell, S., Mason, C.M., Griffith, C., Sane, S.K., Reeson, A., O'Brien-McInally, B.A., Kimber, J.D., 2013, 'Broadband impact and challenges: Realising the benefits from the digital economy', Australian Centre for Broadband Innovation, CSIRO, EP1312215

⁶ ABS, 2014, 'Household Use of Information Technology, Australia, 2012-13'

ACCAN commissioned research found almost half of Australians experiencing financial hardship couldn't afford home internet access.⁷ Of those who did have access 36% found it somewhat or very unaffordable. The results were the same for home phone affordability. More than half (51.9%) also had difficulty paying a telecommunications bill in the past 12 months. These figures indicate a portion of consumers are being priced out of the telecommunications market.

Benefits of broadband penetration

An exceptional feature of telecommunications economics is the strong link between access and economic development. As such, setting low access prices is not a zero sum game. As an influential study of 22 OECD countries points out, the relationship is more complex. The study found there is a significant causal positive link between broadband penetration and economic growth.⁸ In fact every 1% increase in broadband penetration led to average GDP growth of 0.025%.⁹ In an Australian context this would be the equivalent to adding an additional \$US40,000,000 to the economy. Many of these benefits are likely to accrue directly to those who gain access as broadband can provide, among other things, improved job prospects, health and skills training.¹⁰ With higher economic output in the long run consumers will be able to more easily afford higher access prices. Thus, there is a virtuous circle between lowering affordability barriers to broadband penetration and economic development.

Geography

Geography also plays a major part in access. The proportion of households with internet access remains higher for those located in capital cities (85%) compared to those outside of capitals (79%).¹¹ ACCAN believes targeting this disparity should be an important consideration in weighing up the benefit of pricing underlying cost differences across geographic areas. Charging higher access prices in rural and regional areas has the potential to promote infrastructure spending. However, in the event that infrastructure spending never eventuates it may simply exacerbate affordability issues. As such ACCAN prefers an approach which minimises geographic price differences, especially in areas where higher access prices are unlikely to deliver improved efficiency or further infrastructure spending.

Conclusion - balancing reasonable returns and affordability

ACCAN acknowledges that developing a pricing model which allows the access provider to recover its efficient actual costs, as well as a reasonable return on investment, is likely to be in the long term interests of consumers. Without reasonable returns network investment is likely to diminish, leaving consumers with access to a substandard service. However, consideration of what is a reasonable

⁷ Anglicare Victoria, 2013, 'Telecommunications access and affordability among people experiencing financial hardship', p.13

⁸ Koutroumpis, P., 2009, 'The economic impact of broadband on growth: A simultaneous approach', *Telecommunications Policy*, 33 (2009), pp.471-485

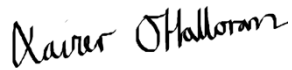
⁹ Koutroumpis, P., 2009, 'The economic impact of broadband on growth: A simultaneous approach', *Telecommunications Policy*, 33 (2009), pp.471-485

¹⁰ Campbell, S., Mason, C.M., Griffith, C., Sane, S.K., Reeson, A., O'Brien-McInally, B.A., Kimber, J.D., 2013, 'Broadband impact and challenges: Realising the benefits from the digital economy', Australian Centre for Broadband Innovation, CSIRO, EP1312215

¹¹ ABS, 2014, 'Household Use of Information Technology, Australia, 2012-13'

rate of return should be carefully balanced against affordability concerns. ACCAN believes that all things being equal, the legislative objective of promoting the long term interests of end-users (LTIE) will be best served by affordable prices for fixed line services. As such we would be encouraged to see the ACCC assess the impact of the eventual pricing model on LTIE through improved affordability, penetration rates and ability to promote efficient investment.

Sincerely,

A handwritten signature in black ink that reads "Xavier O'Halloran". The signature is written in a cursive, slightly slanted style.

Xavier O'Halloran
ACCAN Policy Officer