# Update

**23 October 2018**

## ACCC assessment of internet interconnection arrangements

The ACCC has recently concluded its assessment of internet interconnection arrangements in Australia.

Internet interconnection refers to the arrangements individual networks make with other networks to exchange internet traffic. To access content hosted on (or originating from) another service provider's network, an internet service provider (ISP) must interconnect directly or indirectly (i.e. via a third party network) with that service provider. Internet interconnection is an important input into internet access services provided to residential and business customers.

The two types of commercial models for internet interconnection are transit and peering.

- Transit agreements are bilateral internet interconnection agreements between two networks where the larger network interconnects with the smaller network in exchange for a fee and provides full connectivity to the wider internet.

- Peering is an agreement between two networks to exchange internet traffic with each other, including that of their retail and wholesale customers, often without payment being exchanged. Peering does not include the obligation to carry traffic to third parties. In Australia, the four ISPs who have had long-established peering relationships are Optus, Telstra, TPG, and Verizon.

### Communications sector market study

The ACCC considered internet interconnection arrangements in our communications sector market study, which concluded in April 2018. Our final report on the communications sector market study included the following action and recommendation in relation to internet interconnection:

- Optus, Telstra, TPG and Verizon should maintain on their website a comprehensive set of criteria and any other relevant policies to which they have regard when assessing peering requests from other networks. (Recommendation 2)

- We will continue to assess and report on whether access to internet interconnection services is available on competitive terms to support effective competition in the downstream markets, with a particular focus on the market for the supply of services to corporate customers. (Action 9)

### Publication of peering criteria

Optus, Telstra and TPG have each recently published their peering criteria on their websites. This increased transparency provides prospective peering parties guidance on the criteria they are required to meet in order to peer with each of these providers.

As there are equipment, circuit and management costs associated with establishing direct interconnection arrangements, the peering criteria identify the requisite attributes of a prospective peering partner including geographic network reach, exchange points, minimum capacity requirements and symmetry of traffic exchanged. These are essentially metrics for determining whether both parties would receive roughly equal value from entering into a peering arrangement.

Going forward, we expect large internet service providers who enter into bilateral peering arrangements with each other to also publish their peering criteria. It is important that ISPs set their peering criteria in good faith, provide as much public transparency as possible and evaluate any prospective peering party's conformance with their criteria in a reasonable, non-discriminatory and non-exclusionary manner.

## Conclusion of our assessment

We have now completed our assessment of whether access to internet interconnection services is available on competitive terms. We have not identified any clear evidence of anti-competitive conduct by Optus, Telstra or TPG in the supply of internet interconnection services.

That said, the information we have obtained suggests that there was a strong incentive for Optus, Telstra and TPG to maintain the status quo in relation to their long-standing peering arrangements, resulting in an unwillingness to peer with other internet service providers. Due to the size of their networks and their peering arrangements, we consider that each of Optus, Telstra and TPG hold some market power in the internet interconnection market. We have found that the competitive constraint on these providers in relation to the supply of internet interconnection to other internet service providers is limited. Further, the information we obtained indicates that Verizon's participation in the peering arrangements has recently diminished and that Verizon no longer actively competes in the supply of transit services.

We were concerned that the apparent market failure stemming from the stasis in the peering arrangements was softening competition in the market for the supply of internet interconnection services. While transit prices have steadily declined year on year in Australia, we identified some pricing inefficiencies that appear to have forced several internet service providers to make trade-offs between the quality of interconnection and the cost of interconnection.

However, we welcome recent developments in the peering arrangements and, in particular, Telstra and Vocus entering into a peering relationship. This should improve the ability of Vocus to provide competitive wholesale transit services to other providers, with positive flow on impacts in downstream markets including the corporate internet market.

In addition, we welcome the recent action by Optus, Telstra and TPG to publish their peering criteria, which provides greater transparency of the requirements other internet service providers need to meet in order to peer with them. We consider that ISPs now have a transparent pathway to obtain peering with Optus, Telstra, and TPG by attaining the necessary network scale to meet their peering criteria.

In light of the above, we do not consider there is a case for commencing a declaration inquiry into internet interconnection services under Part XIC of the Competition and Consumer Act at this time.

# Links to published peering criteria

**Telstra**

**TPG**

**Optus**

**Verizon**

# Media release

Peering criteria increase transparency in the internet interconnection market