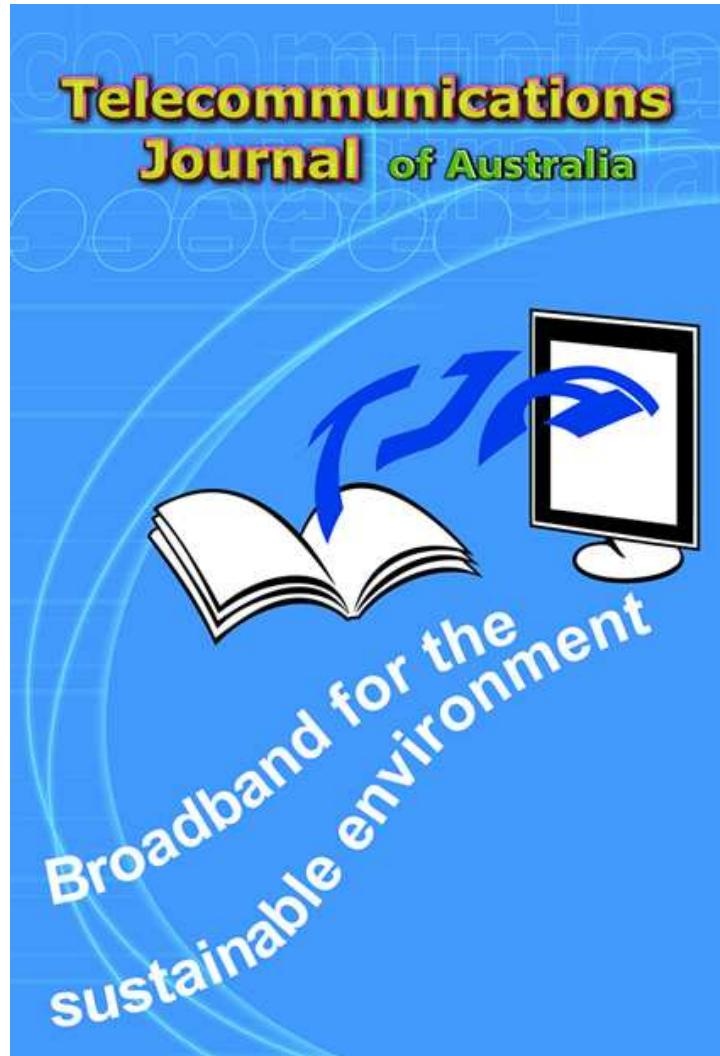


Structural Separation - the idea that won't go away

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Proponents of SS:

- 2001 OECD
- 2003 Submissions to Aust. H. Reps Inquiry
- 2004 Productivity Commission
- 2004 P Gerrand in *TJA 54(3) 15-28*
- 2005 BT - voluntary SS
- 2007 Babcock & Brown's Eircom proposal
- 2007 Telecom NZ - voluntary SS
- 2007 Singapore Government: 3 layers

What is SS?

- **Accounting separation:** separate accounts for retail and wholesale services
- **Operational separation:** wholesale network services are based on infrastructure elements **managed separately** from those providing purely retail services - so that ideally, cross-subsidies can be eliminated.
- **Structural separation:** separate corporate ownership of wholesale network infrastructure and retail businesses, ensuring a greater discipline and transparency in operational and accounting separation.

If SS is the solution, what is the problem?

- The problem is how to motivate **major investment** in world-class broadband infrastructure, while achieving a fair environment for retail **competition**

What SS can achieve:

- A truly level playing field for retail competition - full transparency between wholesale & retail businesses
- An access regime where access prices *and access processes* can be made nondiscriminatory
- SS can eliminate - or make transparent - cross-subsidies between retail & wholesale
- SS can eliminate deliberate design of new access networks to freeze out retail competition
- *An increase in industry confidence* in fair dealing by incumbent carriers

What SS can't achieve by itself:

- any incentive for major investment in world-class broadband infrastructure, such as FTTP.
- **But SS is the enabler -**
- - it reduces the 'broadband bottleneck' problem to this single issue – **infrastructure investment** - and focuses on encouraging investment in wholesale infrastructure which is then of benefit to the whole industry supply side.

Investment incentives

- US solution: the ‘regulatory holiday’
- Alternative: allow a more attractive wholesale Return on Investment
 - Either by government subsidy (e.g. Opel) or
 - Allowing a more generous access margin
- Important idea: apply the same regulatory regime to both **new networks** and ‘voluntarily separated’ old networks.

The arguments against applying SS to Telstra

- 'It can't be done'
- 'The cost is prohibitive'
- 'It will upset Telstra shareholders'
- 'Sovereign risk'
- 'It will take too long'
- 'The Minister rules it out'

Conclusions

- The ideal time to separate Telstra was in the 1997 or 2005 legislation; it's too late now
- Instead, the principles of SS should be applied to any government investment in **new network infrastructure**
- This is essential - because otherwise, a new FTTP overlay will be designed to make retail access prohibitively expensive for competitors
- Greater RoI incentives are needed for major infrastructure investment in telecoms - either via PPPs, or allowing larger wholesale margins in the absence of government subsidies