

Lower prices drive shift to broadband

The most striking consumer developments in the telecommunications sector during 2004–05 were the increase in the number of broadband subscribers and the amount of internet activity, according to a new ACMA report, *Consumer Benefits Resulting from Australia's Telecommunications Sector*. The trends were underpinned by price cuts that stimulated the growth of ADSL broadband.

The report shows that at the end of March 2005, total broadband take-up was 1,802,000, an increase of 109 per cent since March last year. Over the same period, the number of dial-up subscribers fell by four per cent to 4.2 million. (By 30 June 2005, the number of broadband subscribers had increased to 2.2 million).

Other notable trends were the switching from narrowband to broadband services, and the increasing regional availability of ADSL broadband.

The mobile sector grew strongly and average prices declined slightly, while traditional fixed-line services suffered from substitution effects and declined in number.

The report provides an assessment of the benefits accruing to households and small businesses from improvements in the telecommunications sector arising from the competition reforms of 1997, and particularly benefits achieved in the 2004–05 financial year. Economic consultants, ACIL

Tasman, in association with telecommunications specialists Gibson Quai AAS, were commissioned to conduct the study.

The study found that consumers continue to receive substantial benefits from telecommunications reforms. The net benefit to the economy is estimated as \$1.97 billion in 2004–05, with consumers benefiting from new types of services and lower costs over an increasing geographical spread.

Regional areas benefited from increasing broadband availability, with the areas benefiting most from the increase in terrestrial broadband availability typically containing many towns with populations of between 800 and 2,000 people.

The total estimated benefits to the Australian economy in 2004–05 include:

- household consumption increasing in the order of \$1.3 billion
- increased benefits to small businesses of more than \$200 million
- investment increasing by almost \$500 million and
- the creation of approximately 23,000 additional jobs.

METHODOLOGY

For the 2004–05 year, the study included a qualitative analysis of the increasing range of telecommunications services and the increasing level of service in regional Australia. ACIL-Tasman used economic modelling to estimate, at a state and national level, changes to consumer welfare for changes



in price, quantity and quality of telecommunications services.

Key data sources for this research were from the Australian Bureau of Statistics and ACA reports, as well as extensive data supplied specifically for the study by telecommunications carriers and service providers. This data covered:

- 90 per cent coverage of fixed-line voice market
- 72 per cent coverage of broadband market
- 50 per cent coverage of narrowband market and
- approximately 80 per cent coverage of fixed-line or point-to-point data market.

Other data limitations are noted in the report.

The analysis does not assume that technological change variables have remained at their pre-telecommunications

reforms levels because, with the passage of time, other factors such as internet developments have supplemented the influence of the 1997 reforms. The analysis therefore applies a standard set of technological change assumptions or technological advances that the consultants considered would have applied independently of the telecommunications reforms.

Benefits to consumers were assessed from improvements to service quality, new types of services, improved geographical coverage and price reductions. The improvements result from innovative technologies and competition, and the interaction between the two. As with all such estimates, they are dependent on the 'reference case' and other model assumptions (stated in

the report and its appendixes), and should be seen as indicative rather than a precise figure.

Nearly all sectors of the economy in all jurisdictions showed increases in output compared with the reference case. The modelling results show that:

- output, income, consumption, employment and investment were higher across all jurisdictions than would have been the case had the telecommunications industry not been liberalised
- the benefits are relatively larger in states that have a concentration of service and manufacturing activities and
- the telecommunications industry shows substantial gains in dollar output, which is especially strong in internet services and relatively strong in mobile services, with comparatively little change in traditional non-mobile services.

Consumers have benefited in all jurisdictions, with increases in household consumption made possible by less expensive services, the adoption of higher quality mobile voice, and mobile and internet data services, and more service choice than in the previous year.

FIXED-LINE SERVICES

Fixed-line call revenues, subscriber numbers and call volumes all declined in the 12 months to 31 March 2005. While access revenue increased, subscriber numbers decreased by two per cent (residential) and four per cent (business), total local call revenue decreased by 14 per cent, the number of local calls decreased by eight per cent and local call minutes decreased by 11 per cent. Decreases in local call revenue and volume are similar for residential and business use.

Long distance and international call revenue, volume and minutes also decreased. Total fixed-to-mobile call revenue decreased by 1.7 per cent, while fixed-to-mobile call volume increased by 3.7 per cent and call minutes by three per cent.

The decreased consumption of fixed-line services is attributed to the corresponding increase in use of mobile telephony. The substitution of fixed-line voice by mobile telephony can be explained by the combination of declining mobile phone charges and consumer desire for greater convenience and flexibility. Continuing high growth in

broadband internet services also suggests that email, internet messaging and chat rooms may be providing alternative forms of communication.

INTERNET SERVICES

There were large increases in broadband subscribers and data volumes, corresponding with substantial price reductions per gigabyte of data. In the twelve months to 31 March 2005. Broadband data volumes increased by 230 per cent and prices per gigabyte reduced by 54 per cent for ADSL and 49 per cent for cable broadband subscribers. Broadband services revenue expanded by 67 per cent by 31 March 2005.

A key factor behind the growth of internet services was Telstra's introduction of new entry-level retail ADSL service in February 2004, followed by a competition notice issued by the Australian Competition and Consumer Commission in March 2004 and new Telstra wholesale prices from December 2004, leading to significant price competition in the broadband internet market. The lower rates have encouraged many users to switch from slower dial-up services.

The increase in broadband wireless access services, which

offer broadband internet access at competitive prices, has been another source of competition.

MOBILE SERVICES

The mobile sector also continued to grow strongly with subscriber numbers increasing by 13 per cent, total call minutes by 12 per cent and total mobile revenue by 11 per cent. Average mobile call charges per minute declined slightly. The introduction of capped pricing plans appears to have been a factor in the strong growth of mobile voice services.

Total mobile revenue increased by 11.1 per cent or \$910 million to \$9.1 billion by March 2005, with total call revenue up by nearly \$700 million (9.6 per cent) and total call minutes by 11.7 per cent. The average nominal revenue per call minute fell by 1.8 per cent, or 4.2 per cent in real terms. SMS or data revenue increased from \$970 million to \$1.17 billion, an increase of 21.3 per cent.

Consumer Benefits Resulting from Australia's Telecommunications Sector, is on the ACMA website at www.acma.gov.au (go to Home > ACMA > Publications > Industry > Telecoms Performance Reporting > Consumer Benefits Report).

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