

Reflections on CND and cross-subsidy

Cross-subsidisation may have fallen by the wayside as far as economic theorists are concerned but has anyone in telecommunications taken note?

Trends in telecommunications policy were the main topic of conversation during a recent meeting with several Telstra executives. In particular, the trend of moving away from cross-subsidisation was discussed and agreed upon as sound corporate policy.

But this is nothing new. For some years, advocates of neoclassical economics have dominated telecommunications economics and have criticised cross-subsidisation. In essence, such arguments run according to the formula of “why should one section of the market subsidise another?”

For example, witness recent debates concerning charging for directory assistance and the cost of local telephone calls. Most residential consumers want untimed local calls while many business interests lobby for timed local calls to be uniformly available. Such differences are also present in urban versus rural deliberations, particularly when we also recognise that the telephone is a hot political issue.

Strangely, such arguments never seem to recognise that there are benefits associated with as many people as possible participating on an equitable basis. For example, Australians in isolated rural areas can be seen to cost more for equitable access to telecommunications services but only if we use an urbanised norm. Likewise, we need to remember the benefits of virtually all Australians belonging to the telecommunications network. It becomes much more socially and commercially valuable.

Yet, in the face of arguments from telecommunications players against cross-subsidisation, Telstra seems to have introduced the ultimate form of cross-subsidisation in CND (Caller Number Display). In adopting an opt-out approach to the introduction of CND, Telstra has ensured that most of its customers now send their information, unless they have opted for line blocking or have private lines. Rather than adopting the opt-in approach that Optus has, whereby consumers need to make a conscious choice to send their information, Telstra has fundamentally changed the nature of its phone service, such that CND is now a highly lucrative product.

However, when a user sends information to someone who can benefit from that CND, and indeed pays Telstra for the ability to use that information, the user is cross-subsidising Telstra and that other consumer. For example, a pizza operator may benefit from verifying that the order in the user’s name to the user’s address really is from the appropriate phone number. The pizza operator benefits from the user having sent that information. Yet, while Telstra and the pizza operator benefit from such a *de facto* sending by consumers of their number, the latter receive no recompense for the use of that lucrative information.

Of course, it could be argued that pizza operators will be able to produce a cheaper product via the use of CND. But you can bet that pizza prices do not suddenly drop to reflect this. In addition an opt-in system would work just as well for pizza operators, where they ask the

information when calling, and possibly even have a pricing structure which reflects this, providing benefit to the customer and pizza supplier.

But Telstra seems to have decided that it is far more lucrative to follow the example of various telcos overseas, and adopt opt-out CND, despite the protests of privacy and consumer advocates. In short, Telstra and subscribers to CND services benefit from the participation of most of the Australian domestic telecommunications networks.

CND is an ultimate form of cross-subsidisation, but only for Telstra and other business interests

While Telstra and subscribers to its CND services benefit from such a fundamental user to disclose change in the dynamic, there is no economic return for those consumers who send information which is a valuable commodity to others. Hence CND is an ultimate form of cross-subsidisation, but only for Telstra and other business interests. Strangely, the Telstra executives in the meeting, and neoclassical economists, seem to have no objection to such a situation.

At this point, I should reveal that I have taken the option of default blocking – a free service offered by Telstra – for all three of my phone services, as I value my privacy. For others, privacy is even more imperative and worth more than any sum. But Mr Blount, if you offer me a lucrative enough incentive I am prepared to send my calling information on at least one of my lines. Isn’t that only fair – in a user pays world?

Christopher Newell, Ph.D., is a senior lecturer in the Division of Community & Rural Health, University of Tasmania, and a private consultant in Human Services and Ethics. He has a research interest in telecommunications policy and residential consumers.