



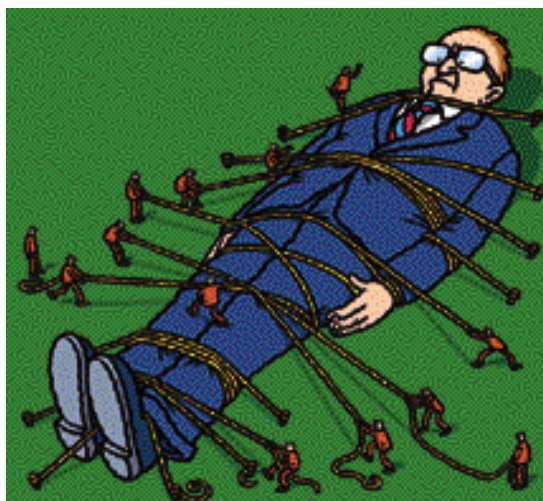
Slay the Telstra giant

It is a safe bet that Lord Acton was not thinking about monopolies when he wrote “Power tends to corrupt, and absolute power corrupts absolutely”. Monopolies now wield vast power and, as a result, governments endeavor to restrain them. But new technologies make it difficult to understand how dominant companies exploit their position.

Consider the Microsoft anti-trust trial. Conventional wisdom is that Microsoft lost resoundingly but got an unexpected reprieve when Judge Thomas Penfield Jackson, ready to impose harsh remedies — possibly a break-up — was removed from the case for speaking ex cathedra. But the fact that his replacement, Judge Colleen Kollar-Kotelly, is taking a narrow view — and appears likely to let Microsoft off the hook — shows that the prosecutors either failed to define the damage done by Microsoft or felt it was too difficult to relate it to anti-trust law.

But harm was done, notably through forced upgrades. Microsoft and Intel collaborated to prompt consumers to trade up their hardware and software faster. For example, information technology experts say that even though an operating system upgrade could often run on old hardware, Windows scans the computer and disables functions if the hardware does not meet the published requirements. In 2001, the research firm Gartner noted that

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Microsoft’s releases had more to do with protecting revenue than technological advances.

Like Microsoft, Telstra has been hard to curb. But appropriate regulation of communications is vital to Australia to realise the sector’s growth potential and because business innovation depends on communications.

The results of the present regulatory regime are clear. Australia is generally acknowledged to be two-to-five years behind the United States in the deployment of new communications services. For example, Telstra is only now testing BlackBerry, a hand-held device that enables wireless e-mail access. It is popular in the US.

Earlier this year, the research company IDC estimated that prices for broadband access in Australia are 30% higher than in most of Asia (although AT Kearney, which consults to Telstra, says in a recent report that Telstra’s prices are lower, relative to local incomes, than those in the US and Britain). Australia is the only country in the Organisation for Economic Co-operation and Development where it is common to price broadband services based on usage, which suggests either capacity constraints or poor network management. How can Australia expect to compete with Hong Kong and Singapore to

attract regional headquarters when its communications services lag?

The pending content-sharing deal between the pay-

television companies Foxtel (which is 50% owned by Telstra) and SingTel Optus would only cement Telstra’s controlling position.

The Australian Competition & Consumer Commission has signalled that it will not accept Telstra bundling telephony and cable services. But giving Telstra control over carriage and content is fraught with risk, and the proposed undertakings give illusory comfort. Without strict monitoring and tough, rapidly applied penalties, Telstra can act with impunity, as did Microsoft after signing earlier consent decrees.

Cynics believe that Telstra is getting favored treatment because of the Federal Government’s desire to bolster

its earnings prior to the full privatisation of the company. A break-up — separating, say, the local telephony operations from other businesses — would probably have increased the Government’s proceeds. Several studies, such as one conducted by McKinsey & Company in 1999, have found that spin-offs increase total shareholder value.

Even if the Government were keen to rein in Telstra, it is hard to regulate the dominant market participant. Intervention takes time, and in the interim the incumbent can cut off the air supply of competitors. Look at the reluctance of internet service providers that depend on Telstra’s network to do more than complain on industry Web sites.

It is troubling that only now has the Australian Communications Authority started to encourage alternative “last mile to the home” technologies that would compete directly with Telstra’s local phone lines. One accessible and affordable example is the 2.4 megahertz spectrum, also known as 802.11b or Wi-Fi, which is unregulated in the US but not fully deregulated here (some commercial applications, such as providing access in rural areas, require a carrier’s licence).

This technology, which uses cheap consumer-grade equipment to penetrate walls and go short distances between buildings, now serves more than two million customers in the US, according to Gartner. In conjunction with either conventional long-distance carriage, such as fibre — which is sometimes deployed along gas or electric utility rights-of-way, or higher-frequency point-to-point wireless backbones — Wi-Fi has also been used to give remote communities cheap, high-speed internet access.

There is a wide and puzzling gap between the perception of this technology in the US, where it has been embraced, and here, where there is considerable scepticism. The commonly raised problems — security, using services without paying for them, and signal interference — all have solutions. It is not clear how far new policies can go in dispelling this prejudice.

New paradigms are often the downfall of entrenched regimes. Open-source software, exemplified by Linux, was once dismissed as unreliable but is now used by large companies as an alternative to Microsoft. Let us hope that Australia is not too late in recognising the potential of wireless technologies. ●