

## Media release

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### Telstra profits at the expense of low income earners

Low income households already bearing the brunt of Telstra's market power would be worse off if price caps were removed, according to The Australia Institute's submission to an Australian Competition and Consumer Commission's review.

The ACCC is considering whether competition in telecommunications is sufficient to grant Telstra's call for price controls to be dropped. The ACCC today published submissions to its review, which will be completed by 12 March.

The Institute argues that existing price caps do little to address Telstra's monopoly power and that price controls should be strengthened rather than weakened.

Senior Research Fellow David Richardson has calculated that Telstra's market power means in 2009 it earned \$4.4 billion dollars in profit over and above what it could be expected to earn in a competitive environment.\*

"That represents a massive transfer of income from customers to Telstra," said Mr Richardson.

"Low income households are already spending 6 per cent of their income on telephones compared with only 1.6 per cent for the wealthiest 20 per cent of households. Removing price caps would only further exacerbate this inequity.

"There is other evidence to indicate that the caps imposed on Telstra's pricing have been too loose. For example, Telstra has consistently held most of its prices below the levels permitted by the regulator, voluntarily forgoing profit. If Telstra is content to charge below cap limits, we have to question whether these limits have been too generous," said Mr Richardson.

The Institute also believes the ACCC should investigate why text messages are expensive and emails cheap, yet most of this information is transmitted over the same Telstra network.

"While there might a semblance of competition in parts of Australia's telecommunications industry, it is clear from the size of Telstra's profit that it is exploiting its market power.

"The ACCC needs to examine world best practice and derive a figure for Telstra's revenue that would give it a normal rate of return on best-practice technology. The ACCC should set price caps that allow Telstra a reasonable rate of return and no more," concluded Mr Richardson.

#### Notes for Editors

- \* This submission does not incorporate Telstra's half-yearly profit results released 11 February. However, those results would not affect the conclusions in this submission.
- The Australia Institute's submission is attached.

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