Submission to the ACCC Regional Mobile Infrastructure Inquiry

About Vocus

Vocus, Australia's specialist fibre and network solutions provider, owns and operates Australia's second-largest regional and intercapital fibre network. In February 2023, Vocus announced that it was proposing to acquire Challenge Networks, a leading provider of Private LTE/5G mobile infrastructure. The acquisition is expected to be completed by the end of the financial year. Challenge Networks designs, deploys, and operates private 4G and 5G networks for customers that require secure, reliable, high-capacity wireless coverage.

Challenge Networks has provided mobile network design and deployment services in some of Australia's most remote areas, largely for mining and resources customers in Australia's Northwest, and throughout the Pacific region. As part of its wider network and product offering, Vocus will now integrate full turnkey private mobile network capability including site survey, spectrum planning, network design, RF engineering, vendor selection, procurement, delivery, acceptance testing and ongoing service operation and network assurance.

Executive Summary

Vocus submits that the most significant impediment to investment in regional and remote mobile infrastructure is the extreme power imbalance in the mobile market, which has stymied the development of active and passive sharing models such as neutral-host networks.

This market power issue has been exacerbated by Government funding programs which have historically promoted improvements in coverage at the expense of competition. Under the Mobile Black Spot Program (MBSP), Telstra has secured Government funding for nearly three-quarters of total sites – with only a small portion being used for co-location by competing carriers. This outcome has embedded Telstra's market dominance, as each round of the program has increased the coverage gap between Telstra and other Mobile Network Operators (MNOs), reducing the ability of competing MNOs to access such subsidies to expand their own networks.

This has resulted in an investment environment which has only seen limited use of passive and active infrastructure sharing models – even on sites which are largely funded by taxpayers – primarily due to the coverage dominance of a single carrier which has limited, if any, incentives to share infrastructure with other MNOs.

After completion of the acquisition of Challenge Networks, Vocus will have the capability to provide neutral-host, open-access mobile network infrastructure to any MNO. Vocus is also the first major telecommunications operator to sign a reseller agreement with Starlink, enabling it to provide high-speed, low-latency, Enterprise-grade Low Earth Orbit (LEO) satellite services in Australia – ideally suited to the provision of backhaul for remote mobile sites where deploying fibre or microwave backhaul is economically unviable.

The factors preventing multi-operator network deployments are not technical in nature, nor are they related to facilities access regulation. They are the result of this market power imbalance which is being compounded by ongoing Government subsidy programs which benefit the largest network operator at the expense of competition.

Access to towers and associated infrastructure

Vocus agrees with the ACCC's view that: *"Infrastructure sharing allows greater efficiencies or economies of scale to be pursued, resulting in lower costs. However, this is often balanced against the competitive advantage derived from having the greatest mobile coverage to attract customers and revenue."* [1]

The market reality is that the largest operator with a significant coverage advantage has little, if any, incentive to pursue infrastructure sharing opportunities – despite the clear benefits to the Australian public – as these would reduce its market power and provide a coverage benefit to competitors.

To date, the Mobile Black Spot Program has not provided sufficient incentives to encourage infrastructure sharing models on funded sites to promote competition.

As the ACCC's consultation paper notes: *"the extent to which the MNOs actually co-locate on Mobile Black Spot Program funded sites has been limited. As at January 2021, only 8 per cent of active mobile sites funded under the Mobile Black Spot Program has more than one MNO operating on them. This means that while the Mobile Black Spot Program has delivered improved mobile coverage in many regional and remote communities, those improvements are largely only accessible by the by the subscribers of the successful applicant's network, rather than available for all end-users."* [2]

The Commonwealth Government is expected to shortly open applications for Round 3 of the Regional Connectivity Program (including $50 million specifically for Mobile Black Spot opportunities), however, Vocus submits that the current program guidelines are unlikely to sufficiently incentivise multi-carrier active or passive infrastructure sharing due to this market power issue.

Vocus submits that Mobile Network Infrastructure Providers (MNIPs – that is, companies which are not Mobile Network Operators themselves, but which provide infrastructure to support one or more MNOs) seeking to participate in the Mobile Black Spot Program are at a significant disadvantage to MNOs, and accordingly, applications based on a multi-carrier neutral-host model are unlikely to be successful under the proposed approach.

MNIPs have an economic incentive to provide neutral-host networks as they benefit from multiple MNOs utilising their infrastructure, and would not lose any market advantage as the same coverage would be equally available to all MNOs. However, under the draft program guidelines, the onus is placed on MNIPs to secure commercial agreements with one or more MNOs to be eligible for funding:

"MNIP applications must be accompanied by written evidence of intent from at least one national MNO, that offers national mobile coverage, to enter into a commercially binding commitment to use the infrastructure to deliver mobile services." [3]

This requirement should be removed. MNIPs should not be required to commercially contract with MNOs which are likely to be competing with them in applying for funding. While the proposed approach is designed to avoid any risk of new infrastructure being left unused by an MNO, it does not take into account the market power dynamics of the mobile industry which has resulted in no successful multi-carrier neutral-host or active sharing models being deployed in the Australian market to date. The success of trials of neutral-host infrastructure sharing to date has been hampered by one or more MNOs refusing to participate.

The ACCC's consultation paper has noted that: *"co-contribution programs could potentially seek to promote competition by adopting other models to co-location such as: a neutral host model, where funding is awarded to a non-MNO infrastructure provider who can then provide*

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[1] Regional Mobile Infrastructure Inquiry Consultation Paper, page 15
[2] Regional Mobile Infrastructure Inquiry Consultation Paper, page 10
[3] Regional Connectivity Program Round 3 (including Mobile Black Spot opportunities) Grant Opportunity Draft Guidelines, page 11

wholesale services to all MNOs. The neutral host should be provided with incentives to collaborate with as many MNOs as possible." [4]

Vocus submits that this approach should be reversed: MNOs should be provided with incentives to collaborate with neutral-host providers. Neutral-host providers are already incentivised to collaborate with as many MNOs as possible – it is in their commercial interest to have more than one MNO utilise the infrastructure. These incentives are also aligned with consumers' interests in having a choice of providers, as MNIPs will look for sites with coverage gaps for more than one MNO to maximise their commercial returns.

In contrast, as we have learned from previous rounds of the Mobile Black Spot Program, MNOs have limited incentive to work collaboratively with neutral-host MNIPs as this would, particularly in the case of the largest network provider, reduce their coverage advantage while improving the coverage of their competitors.

Government funding should be allocated in a manner that maximises the likelihood of it being used to extend coverage for at least two networks, rather than one. Vocus submits that public funds should be used efficiently, for the public good – not private gain. The Mobile Black Spot Program could nominate certain areas that only qualify for funding if shared solutions – such as neutral-host models – are deployed.

New mobile sites constructed with public funds should include an obligation to provide open-access services with equivalent pricing. Additionally, consideration should be given to establishing a requirement on MNOs to utilise publicly-funded mobile infrastructure in areas where they do not already provide coverage. This would circumvent the market power issue where the three MNOs have historically avoided working cooperatively with MNIPs to construct and utilise neutral-host infrastructure, and would ensure that publicly-funded sites are used to deliver mobile coverage from all major MNOs. Such a requirement could potentially be established via carrier licence condition or similar regulatory instrument.

In summary, experience shows that MNOs have little incentive to work collaboratively on neutral-host or active sharing arrangements, and that the design of previous Government funding programs has also failed to successfully incentivise multi-carrier solutions. To remedy this, certain areas could be selected that only qualify for funding if shared solutions, such as neutral-host models, are deployed. Vocus submits that publicly-funded mobile infrastructure should be required to operate on an open access basis with equivalent pricing, and that consideration should be given to a requirement on MNOs to utilise such infrastructure. This approach would overcome the extreme imbalance in market power which has, to date, resulted in public funds overwhelmingly going towards the expansion of a single mobile network in regional Australia.

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[4] Regional Mobile Infrastructure Inquiry Consultation Paper, page 10