Speech to ATUG Regional Conference (21 May)
David Quilty (Telstra – Director Government Relations)
CHECK AGAINST DELIVERY

Introduction

Thank you for inviting me to speak today. First, may I apologise on behalf of Geoff Booth, the Group Managing Director of Telstra Country Wide, who due to a longstanding commitment in Darwin cannot be here today. I am sure that the many people here who know Geoff would understand his genuine disappointment at not being to provide his perspective on the current environment. Geoff's knowledge of the needs and concerns of regional customers is second to none and I am a pale imitation, but will try my best nonetheless.

A Critical Juncture

It is a critical juncture for regional telecommunications – not only for those of us in the industry who provide services but also those who increasingly rely on these services as customers and who utilise telecommunications networks and platforms to serve their own customers and clients across business, government and the community.

For years, we have all talked endlessly about the internet and e-commerce – about how important they are and how they will boost productivity and overcome the tyranny of distance - but I think we now agree that high-speed broadband has become one of life's necessities. I will not regurgitate the benefits of broadband, as we have all heard them so many times before, and I think we are all much more interested in reaping these benefits rather than hearing them yet again.

This is a critical juncture because the imperative of high-speed broadband has now engendered a potentially comprehensive policy response from government at the national level. We have entered a phase where it simply no longer economically viable or politically sustainable for government not to take the major decisions that are needed to ensure that Australia makes the investments in high-speed broadband infrastructure that will underpin our future economic prosperity and social cohesion.

All the policy balls are in the air. We have the National Broadband Network (NBN) tender, with the Government committing to provide fibre-based broadband with a minimum download speed of 12Mbps to 98% of the population. The Government is also seeking submissions on possible regulatory reforms that might accompany the NBN. We have the Regional Telecommunications Independent Review Committee inquiry, which is tasked not only with assessing the overall adequacy of regional telecommunications but with coming up with high-speed broadband solutions for the 2% of the population not covered by the NBN. We also have the review of the Universal Service Obligation, which is highly relevant to regional Australia and is one of the most vexing and complex areas of telecommunications policy.

A decade of change – and the need to catch up

Government's willingness to tackle the big issues in telecommunications is very welcome, although overdue. In the decade since the introduction of full competition

in mid-1997, the telecommunication industry and the needs of the consumers and the businesses that rely on the services we provide have changed markedly.

A decade ago, there were limited ways of delivering telecommunications services to end-users while today the network and applications options are virtually unlimited. In 1997, there were three players in the market, now there are hundreds of competitors, many of whom have very deep pockets. In 1997, end-user prices were high but in the last decade, end-users have enjoyed price reductions across virtually all services and Australia now has amongst the most competitively priced and affordable services in the developed world.

In 1997, the primary objectives of the regulatory regime were to provide third party access to the fixed network as virtually the only means to deliver competitive services to end-users; to reduce end-user prices; and to facilitate the entry of new players into the market. Today, the number one objective is: to facilitate much-needed investment in the high-speed broadband infrastructure that will underpin the long-term future of this industry and the end-users that will rely on the industry's networks and services.

Although the central objective has changed markedly in the decade since 1997, unfortunately the regulatory regime and regulatory processes have remained largely static. They have not moved sufficiently with the times and have become outdated. Rather than facilitating the delivery of what I call the 'investment imperative', they have actually become a hindrance.

We have come a long way nonetheless

That said, when it comes to telecommunications generally and regional telecommunications in particular, it is indisputable that we have come along way both technologically and in terms of service availability over recent years.

A couple of weeks back I was helping prepare materials for the Regional Telecommunications Independent Review Committee and it reminded me of how far we have come since the Besley and the Estens inquiries early this century.

In 2000, there was no ADSL coverage. Today ADSL is available to some 92% of the population and ADSL2+ is available to some 79% of the population with Telstra's recent extension to an additional 900 exchanges predominantly in regional areas. Despite this considerable progress, virtually everyone from the Government, to the industry, to end-users is saying that ADSL is now not good enough.

In 2000, the AMPS mobile network was being phased out. It reached 91% of the population with a footprint of 500,000 sq kms. CDMA, which we were told would never be as good as AMPS, was being rolled out with an original footprint of 960,000 sq kms reaching 95% of the population. Today the Next G™ network, which we were told would never be as good as CDMA, covers 2 million sq kms reaching 99% of the population. Between 2.6 million and 3.4 million additional people have terrestrial mobile coverage today compared with 2000. Optus has committed to providing 3G coverage to 98% of the population and Vodafone has also committed to providing 3G coverage well in excess of 90%.

Comparisons of available data speeds are also enlightening. In 2000, fixed narrowband download speeds were up to 56kbps with ISDN providing 64kbps. CDMA WAP provided speeds up to 40kbps. Today ADSL provides download speeds up to 8Mbps and ADSL2+ provides download speeds up to 20Mbps – while the Next G™ network has a peak network speed of 14.4Mbps and average downlink speeds of 550kbps to 3Mbps. Speeds are up to 1,000 times faster than they were just eight years ago.

I remember the Government deciding to implement the Internet Assistance Program to ensure everyone had access to minimum narrowband speeds of 19.2kbps. Today the Australian Broadband Guarantee requires minimum speeds of at least 512kbps to be able to access a government subsidy.

Broadband – the greater leveller for regional Australia

This is an industry where you can never rest on your laurels. The public's appetite for higher speeds, new services, better value-for-money, increased coverage and greater reliability is unrelenting. This is testament to people's recognition that high-speed broadband is no longer a luxury – rather it is central to their businesses, their education, their health care and their recreational exploits.

In regional Australia, high-speed broadband is the great leveller. I remember those quirky case studies heralded by the former Deputy Prime Minister, Tim Fischer, just before the turn of the century demonstrating how the internet could open up regional and rural small businesses to world markets (we all remember Mick's Whips). Now Mick was an early adopter and I am not sure how he is going. What small business today would even think of not using the internet to link with its customers or its suppliers? Not many! The latest ABS statistics show over 80% of small businesses use the internet and over 80% of these business use broadband – and that was in 2006.

Nowhere is the potential of high speed broadband as the great leveller for regional Australia clearer than in relation to the Next G™ wireless broadband network. Let me provide some examples:

- The farmer in NW Qld using remote telemetry to monitor his water pumps
- The rural patients of Breast Screen Victoria and in Tasmania getting results in hours rather than days or weeks
- The teacher at the Charleville School of Distance Education working remotely with students
- The Royal Flying Doctor Service sending important patient data from aircraft in the Northern Territory
- The South Australian tourism operator staging a webcast from a cave
- The salmon breeder using streaming video to remotely feed fish in Tasmania
- The Victorian Country Fire Fights accessing fire-fighting maps online in the field when they urgently need them

I could go on, but these examples show that, as long as you have coverage, then the applications, the uses and the opportunities are limitless. In regional Australia, the productivity and efficiency benefits are arguably greater than in the cities because of the traditional disadvantage experienced by these more isolated communities.

But we can do much better

I can hear the rumblings – what if I live somewhere that cannot get ADSL; or outside the coverage of Next G™; or I still rely on last century radio concentrator systems?

As a nation and as a sector, we must do better in ensuring everyone is able to reap the benefits of high-speed broadband. We have come a very long way but we must make a further quantum leap or risk being left behind the rest of the developed world and suffering the economic consequences.

Australia is the one of the largest countries in the world by area. A large percentage of our population lives either in, or within proximity of our capital cities, but we have a very low population density outside these capital cities and very large distances between small towns and communities in rural Australia. The OECD and the Productivity Commission have both highlighted this as one of the great comparative challenges that Australia faces in ensuring all its citizens have access to world-class telecommunications systems.

This challenge should not be used as an excuse for accepting second-best solutions. Telstra has recently proved it can deploy the world's largest and most advanced national wireless-broadband network in record time with coverage to 99% of the population – and, critically, a clear pathway to higher speeds and even greater capacity over the next decade. With its NBN policy, the Government has made clear it does not wish to settle for second-best when it comes to deploying a high-speed, fixed broadband network to 98% of the population. It also wants the best available broadband solutions for the remaining 2% of the population not covered by the NBN.

The industry can deliver on this challenge, given the right regulatory settings and the appropriate incentives in areas where it is not viable to provide services on a purely commercial basis.

Investment must be the primary objective

But, if we are to succeed, everyone from government to regulators to the industry itself must recognise that investment in the high-speed broadband infrastructure has to be our number one objective. Without this investment, Australia simply will not be in a position to compete head-to-head with countries throughout Europe, Asia and North America that are already deploying high-speed broadband networks.

We must be doing everything we can to facilitate this investment and to encourage and to reward those who take the commercial risks entailed in investing in the technologies and the infrastructure that will underpin Australia's future business activity and the delivery of critical services in areas like health and education.

Regulatory regimes must err on the side of: supporting those who are willing to invest their shareholders' capital; minimising unnecessary regulatory uncertainty for investors; and ensuring that regulatory decisions are timely. The current regulatory settings pass none of these pro-investment tests and, unsurprisingly, the result has been a dearth of capital investment at the very time that it is so desperately needed.

Paradoxically, in the mobiles sector where a more light-touch regulatory approach has been adopted, the opposite has occurred. With regulatory forbearance, a clear signal

has been sent to industry players that they need to invest their capital and to compete, not on the basis of regulatory outcomes, but on the basis of their network coverage and capabilities and the products, services and value propositions offered over these networks. As a result, Australia is getting major investment in three significant national 3G networks (as well as a number of smaller networks), providing real choices for business and consumers, and real, rather than manufactured, competition.

Regional investment

Nowhere is the contradiction between the imperative of broadband infrastructure investment and the perceived need for regulated competitive outcomes so stark than in regional and rural Australia.

I am not against competition nor am I against regulation per se. However, I fervently believe it is not possible to manufacture competition through regulation or through government subsidies and still expect commercial investment to occur.

The current telecommunications investment climate in regional and rural Australia is a case in point. Wireless aside; we have seen a virtual stalling in any serious commercial investment. Instead the investment cudgel has had to be taken up by taxpayers, providing short-term solutions that often do more to foreclose on, rather than invigorate, further commercial investment.

Let me provide two examples of areas where muddle-headed and outdated regulatory mindsets have discouraged investment in regional and rural Australia.

The Universal Service Obligation

The first is the current Universal Service Obligation which thankfully is being reviewed by the Government.

The primary purpose of the USO is to ensure that all Australians have equitable access to a Standard Telephone Service. For some Australians, principally in rural and remote areas, Telstra's costs entailed in delivering the USO as the Primary Universal Service Provider are not covered by the revenues received. This shortfall is meant to be shared across the industry through a Universal Service Levy. But a decade ago, the Government ignored the then ACA's advice about the size of this shortfall. Instead it arbitrarily set the USO at less than one half of the ACA's estimate and then subsequently ratcheted down the shortfall by 8% per annum. In effect, this means that the reimbursement that Telstra receives to make up for this shortfall is a mere fraction of the actual shortfall itself. For the life of me, I could not fathom a better way of discouraging investment in rural and remote services if I tried.

But that is not the end of the story. Over the years, the requirements around the Standard Telephone Service have become increasingly unwieldy. In fact, the STS has become the instrument of choice to which new government obligations are tied. There are now well over fifty separate requirements tied to the STS. At the same time, new technologies are able to deliver both a voice telephony service capable of any-to-any connectivity as well as enhanced data services. These technologies provide a real opportunity to improve the services available to people in rural and remote areas and potentially also to reduce the cost of delivering the USO. This is a classic potential win-win for the Government, the industry and end-users. But the

deployment of these technologies is being held back by the raft of increasingly unnecessary and outdated requirements that are linked to the Standard Telephone Service and indirectly the USO.

Wholesale Access Price De-Averaging

One of the most under-recognised features of the Australian telecommunications market is the fact that Telstra, as the major provider, prices many of its key retail services to consumers and small businesses on a nationally uniform basis. This means that prices are set in the highly-competitive capital city markets and the benefits of these capital city prices then flow through to regional, rural and remote areas where the realistic opportunities for head-to-head competition are not as great.

Uniform national pricing and the benefits it brings for regional areas have been fundamentally undermined by the ACCC's decision to de-average ULL prices. By setting wholesale access prices at very low levels in the cities and much higher in the bush, the ACCC is perversely discouraging Telstra's competitors from engaging in ULL-based competition in regional and rural areas. At the same time, because the ACCC has set the city-based ULL prices at such a low level, there is no incentive for Telstra itself to continue investing – and invariably the less economic areas in regional Australia, where it is more difficult to mount a business case to invest, suffer most under such an anti-investment regulatory mindset.

So what do we now know?

As I said earlier, we are at a critical juncture. W must find ways to ensure that all Australians can access the benefits afforded by high-speed broadband, including people who live in regional, rural and remote areas.

So what do we now know as we consider the best solutions for regional Australia?

We know that IP platforms will be the fundamental underpinning of the services of the future – and that these IP platforms will need to provide very large amounts of capacity to cater for the traffic and bandwidth-hungry applications of the future.

We know that we are looking at both wireless and fixed broadband. The world is going increasingly mobile, but there will continue to a critical role for fixed networks particularly given their greater capability, at least in the medium term, to deliver the sorts of speeds required by businesses and home users.

We know that we need massive investment. Without this investment, we cannot make the quantum leap required. This investment will involve capital spending of many billions of dollars. It will require scale and the deployment of world leading technologies using global standards.

We know that building these networks will be very complex and will require a huge amount of planning and an intricate understanding of the network technologies and associated IT and network management systems. This is not an area of investment for those without a proven record – it is simply too complex and the risks are too great if we don't get it right.

We know that the current regulatory climate discourages, rather than incents major investment and nowhere more so than in regional Australia. If a bottleneck exists, then there should be open access to the underlying infrastructure – but investors require certainty and timely regulatory outcomes as well as an understanding that the risks that they are taking will not be unnecessarily diluted by decisions that favour those who have chosen not to risk their capital.

We know that real competition cannot be manufactured, particularly in regional areas. When competition is manufactured either by regulations or by government subsidies, it invariably does so at the expense of closing out commercial investment and innovation. The result is the disappearance of the manufactured competitor once the subsidy stops or the benefits of the regulation subside, while the incumbent has little choice but to under-invest during the period of manufactured competition.

We know that in some rural and remote areas, it is simply not economic for one player to invest and provide services on a commercial basis – because there is not a viable business case – so to think that this "pie" can be divided up between multiple providers defies the laws of economics.

And what are the solutions?
So given what we know, what then are the solutions?

We must upgrade Australia's fixed line infrastructure to prepare for the high-speed broadband future that is already upon us. Telstra has said it is willing to make this investment as long as it makes commercial sense to do so. We have also committed that a Telstra national FTTN network, would be an open-access network with competitors having equivalent access as Telstra itself.

We need to find a way to drive this upgrade of the fixed network out as far into regional Australia as is economically possible. The Government has set a target of 98% coverage by a fibre network providing minimum speeds of 12Mbps. It has indicated that a level of Government investment, up to $4.7 billion, may be required to attain this objective -an objective which would have very significant benefits for regional areas.

We must understand that, in order for anyone to make such a multi-billion investment, they must have regulatory certainty. It is not possible for any company to contemplate such an investment if its required return on its invested capital risks being undermined by regulatory decisions taken after the decision to invest is made.

We also need to realise that, to the extent to which the regulatory regime encourages investment and the deployment of new technologies, then the likelihood that this investment will occur increases – and critically we need to understand that, without this investment, none of the benefits of high-speed broadband will be available.

We also need to continue to encourage investment in wireless – both fixed wireless and mobile wireless – broadband solutions. The world is going mobile and small businesses in particular need full mobility to reap the productivity benefits of high-speed broadband. This investment will be encouraged through a combination of light-touch regulation and sensible spectrum management policies. In certain less populated

rural areas, wireless is likely be the most cost-effective way of delivering high-speed broadband to businesses and consumers. Where it is not economic to deliver these wireless solutions on a purely commercial basis, then customer-subsidies may be required but it is important not to discourage investment by attaching unnecessary regulatory conditions to any such subsidies.

Regardless of the customer-end solutions one is able to deploy, we need to realise that they will not deliver a true high-speed broadband experience without the necessary backhaul capacity. Backhaul transmission is not currently an issue in most parts of Australia, but it is the absolute key to providing high-speed broadband to many remote towns without fibre backhaul. It can literally "future proof" these communities. Its deployment will be expensive and is unlikely to be economic at least in the short term (and, certainly, it is not economic to duplicate) but it will provide the underpinning infrastructure for the delivery of end-user broadband solutions over the coming decade.

Finally, it is highly likely that, in some of the most remote parts of Australia, satellite will continue to be most effective (and probably the only) means of delivering broadband and other telecommunications services to end-users. These are locations where it is clearly not feasible in the foreseeable future to provide either wireless or fibre-based solutions. They include the roads, tracks and other thoroughfares where it will never be economic to extend terrestrial mobile coverage and mobile wireless broadband. They are the premises where it is not economic or sensible to deliver a fibre or copper solution, a fixed wireless solution or even an advanced radio system. In these locations, the challenge will be to utilise the most advanced, available satellite solutions that provide the clearest future pathway particularly in terms of the increased capacity required in a high-speed broadband environment. Again it is likely that some form of customer-based subsidies will be required.

Conclusion

In conclusion, the one message I would like to leave with you today is that investment is the critical ingredient if we are to ensure that regional Australia shares equitably in the benefits of high-speed broadband. The need for investment in broadband infrastructure is urgent and will be unrelenting. The level of investment required is very significant. True bottlenecks should be regulated, but regulatory regimes need to be rigorously assessed to ensure they encourage much-needed investment in broadband infrastructure and provide the certainty required by any business contemplating such significant outlays. This is particularly the case in rural and remote areas where business cases are more tenuous and where over-regulation and bowing to the mantra of "competition for competition's sake" is likely to be the death-knell of commercial investment.

Telstra's longstanding commitment to uniform national retail prices has enabled the price benefits of head-to-head competition in highly populated capital city markets to flow-through to non-metropolitan communities – but it must always be remembered that these price benefits are only available if there is a business case to make the actual investment in the regional, rural and remote infrastructure that is required to provide these services in the first place.