

CEBIT SPEECH
Tuesday 20th May
Michael Simmons – Managing Director

We are about to embark on a visionary task.

A task that will unite Australia more than any major project since Australia's foundation.

It compares with the building of the Overland Telegraph line that linked Australia's colonies to the world in 1872.

It shares the foresight of C.Y. O'Connor who built the water pipeline from Perth to Coolgardie in 1903.

And in scale, it can only compare with the world-acclaimed Snowy River Scheme which, if built today, would cost \$2.3 billion.

These projects sort to harvest new prosperity for Australia in the economies of the day.

Whether it was international trade, gold, energy or precious water, great engineering feats looked to the future in the face of fierce controversy.

In our advanced world economy the essential commodity is communication

The visionary leap is the National Broadband Network.....NBN

For us in the industry it is a technical exercise, albeit of a challenging scale.

For the population it announces a true commonwealth of opportunity.

NBN will impact every aspect of our lives,

be it commerce, defence, education, medicine or the provision of social services and entertainment.

It's interesting to compare those former projects of national importance to the one we address today.

All of them were Government initiatives built to provide the widest possible access to the community.

They were all contentious, with State Governments competing for the Overland Telegraph, CY O'Connor, in the face of criticism, committing suicide a year before his project was completed, and the, then, Opposition questioning the value of the Snowy.

That contentiousness continues today in the biggest investment Australia has ever made in communications.

I am the newly appointed MD of what you know as G9.

We are a group of 8 primarily infrastructure-based carriers out to compete with Telstra, we represent the majority of the telecommunications carrier industry.

You will have seen the announcement late last week that the Hon. Michael Egan has accepted the role as Chairman.

Michael sends his apologies today due to an equally important engagement lunching with the PM today.

So, what is the National Broadband Network?

Lets take a step back.

It started as an acronym, FTTN, Fibre to the Node.

FTTN was born during the final term of the former liberal government.

It was a form of network design proposed by Telstra to restore its monopoly advantage in last mile infrastructure.

Because what was actually happening in Australia was that the regulator had unbundled the Local Loop.

This meant that other carriers, G9 members, were effectively able to take possession of the copper (the last mile into the home and business) and plug that copper into our networks.

We paid Telstra an economic rent regulated by the ACCC but that price was fairly assessed and we were able to compete on a level playing field in the provision of basic broadband services.

There was effective separation of network. Network last mile infrastructure was able to be separated between carriers.

Then came 2 plus!

Higher speeds.

Better quality and on the horizon is now V DSL which means even higher speeds and better quality.

Whilst all of this was occurring, IP Based networks emerged.

Overlay on that, MPLS functionality, and what you've got is carriers effectively competing in fixed-based video, voice and data application delivery to consumers.

And the unbundling of the loop created separation.

The increased speed, meant consumers included households and businesses.

The developments to date, and what we are talking about for the future has equal significance for your businesses as it does for your families.

So, we have effective infrastructure-based competition.

Because of the unbundling of the local loop, carriers investing in DSLAMS and IP functionality.

Telstra's traditional revenue streams are under threat.

Telstra then announced they want to build a Fibre to the Node network and they ask the then Liberal Govt for an exemption from regulation of that network, *in return for making the investment.*

Effectively what they are saying is, we'll build nodes closer to consumers to increase speed but we don't want to provide access to any competitor

And because we're deploying those nodes we want to take back the copper that our competitors have plugged into their networks.

We want to remove separation of network & therefore competition.

FTTN was a creation to enable Telstra to restore its former monopoly position in fixed infrastructure networks.

FTTN was justified on the need for faster broadband. But this faster broadband was naturally occurring anyway with 2+ & VDSL developments.

Fibre was being built where the economics justified the investment.

So, Fibre to the Node is created and takes on an existence primarily, not to give consumers higher speeds and lower prices but to recapture a monopoly & retain revenues under threat.

And it nearly happened.

We then had an election and the Opposition Labor Govt hatched a plan to partially fund the construction of a new National Broadband Network.

The new Govt set aside \$4.7 billion dollars to invest in this new Broadband Network.

I am not aware of a Federal Govt or for that matter a State Govt making an investment of that scale.

Maybe there has been a Defence contract of some sort over the years that may have aggregated to this amount of money, but I am not aware of it.

The Labour Govt has now released an RFT that has pitched Telstra against the rest of the industry, through G9, vying for the rights to build the NBN.

There are rumours there may be another bidder or two, primarily financial institutions, but I doubt the viability of such a bid when you consider what it is proposed to be built.

NBN has as it's objective, we believe, delivery of 12 Mb/sec broadband to 98% of the population of Australia.

I'd like to just take a couple of minutes and reflect on the size, scale and enormity of this network.

We have a high-level network architecture complete and we are now drilling down on details as we eagerly await the release of the Telstra network information. This is essential to efficiently price and design the NBN.

This is a network that we think will cost somewhere in the range of \$8-\$10 billion dollars to build. It is the biggest investment in Communications that this country has even seen.

In fact, it's probably the biggest investment in an infrastructure based project, If not, I don't know of another.

It needs to cover 98% of the population:

- of the 6th largest country in the world
- covering over 32,000 square kilometres.

To understand the scale of this network, we estimate that we will have to build 35,000 nodes.

To achieve this, we'll need to construct approximately 50 nodes a day, every working day for the next 3 years!

And that's just the Node. Which is going to be installed in a Local council area, within states that have differing regulations.

Then you've got to cut over the copper and get power to the node.

Or think of it this way, there is potentially going to be 10-11 million connections to this network, that's 10-11 million customers that have to be connected and then supported.

Working on a principle of 1 call centre staff member per 1000 customers, we'll need a call centre with 10,000 people to support the network.

Think of the enormity of the OSS and BSS systems required to support it.

The point I am trying to make here is just how HUGE is this investment of public and private money and assets.

A network that will service the whole of the country for a generation.

- Which will significantly influence how businesses conduct business.

- And how every Australian will use broadband in their everyday lives for communications and entertainment.

And here we are with an RFP before us which we are required to respond to within 3 months.

With limited information about the incumbent monopolists infrastructure, which must be accessed to complete the build of the network.

My point is, **we need to get this right.**

The timetable set by Govt does not allow enough time to develop proposals, consult with industry and investors and to try and facilitate co-operation.

G9 is preparing a bid. And the extent of our commitment will be made this week as further announcements are made on branding and as the due date for lodging the Bid Bond approaches.

To have a compelling and competitive, proposition as an alternate to Telstra....., We will require more time.

Whether it be an extension in the current process or further consultation after bids are lodged, *we must have more time.*

There are a number of other essential ingredients that need to exist whoever is the winner of the RFP.

These ingredients are essential for all of you here today. Because it will affect how you do business.

The most important ingredient is structural separation.

Telstra has said:

1. It will not bid if structural separation is mandatory.
2. It does not want a role for the ACCC in regulating a partially govt funded network.

3. It wants a return of 18% after tax – ***That's AFTER tax!***

WHY?

Telstra has traditional revenue in Fixed Line services that may be lost in the future.

Therefore the returns it requires out of this network must not only provide a return on the additional funds invested but it must also replace what will be lost.

What G9 wants is structural separation.

We, the REST of the INDUSTRY, are happy to compete at the retail level.

We want equal, open, transparent access to NBN.

-Without structural separation of network owner from access seeker there are very powerful incentives to damage competition in downstream markets.

These incentives are unchanged by accounting or operational separation, which I guess will be Telstra's next option.

If there is not structural separation and we get 2nd prize of accounting or operational separation this will mean regulation will creep from the monopoly part of the network to potentially competitive areas because of the conflict between network ownership and access seeking still being vertically integrated.

The key question is whether monopoly networks should be vertically separated from activities open to competition.

Of course they should, otherwise there will be returns of 18% after tax on partially public funded assets.

Vertical separation – that is, legal separation of the monopoly network and downstream activities – removes the incentives for the owner of the network to act anti-competitively.

It also reduces the job of regulating the monopoly network because the monopoly network owner achieves no benefits from non-price based discrimination between Access Seekers.

With Structural Separation the monopolist has a strong incentive to have an Access charge that is the same for all access seekers and a Quality of Service that is also the same.

Whereas a vertically integrated operator (which includes accounting & operational separation models) will seek to discriminate between Access Seekers and its downstream affiliate on non-cost based issues.

If competition is foreclosed due to anti-competitive behaviour, then the benefits of competition will be lost.

Structural Separation will protect the benefits of competition.

The benefits of Structural Separation are therefore the benefits of Competition.

The other essential ingredient that G9 is advocating is a continued role for the ACCC in regulation of the NBN. We are not as naïve as to think that Structural Separation will eliminate regulation, our Argument is that it will reduce regulation.

Our argument is that the ACCC must have a role in monitoring what will be a partially Government funded network.

But that regulation will extend primarily to pricing and fair rates of return as there is no benefit for the monopoly network owner to discriminate between Access Seekers on non-price terms when they are vertically separated.

No matter who wins the NBN RFP, **there is one vital outcome that needs to be achieved and the Govt has a rare opportunity to take that.**

That is to achieve separation within our industry which can only benefit all of you here in the room today, all consumers of broadband and the country as a whole.

I would ask, why wouldn't you?

Why wouldn't you separate the network owner from the user if you have the opportunity?

As my mother said, "you can't make an omelletes without breaking eggs".

And so though we are faced with a number of issues which would have us as the David to an obese Goliath.....

You can be assured we will fight every step of the way to make this process

as transparent as possible **to protect free competition and affordable access to a new Commonwealth of Communication.**

Ends