

27 February 2024
Melbourne

To :

Department of Infrastructure, Transport, Regional Development, Communications and the Arts

Via email : usb@infrastructure.gov.au

Submission on Better Delivery of Universal Services inquiry

Thank you for the opportunity to submit comments on the current state of play regarding universal telecommunications services in Australia.

This submission is in reference to the Discussion Paper released in October 2023.

I have over 30 years' experience in engineering, commercial and regulatory roles in telecommunications in Australian and international markets.¹ In particular, I was Chief Technology Officer of NBN Co from 2009 to 2014.

Since leaving NBN Co, while working in Hong Kong, and now since my return in 2019 to Australia, I have made numerous public comments regarding Australia's fixed broadband market on my blog (see <http://www.mclarenwilliams.com.au/blog>) and submissions to ACCC, Productivity Commission and parliamentary inquiries.²

I am currently a consultant with Hardiman Telecommunications Ltd, a boutique consultancy providing a range of services related to the telecommunications sector across Europe, Asia and Africa.³ The comments in this submission are purely my own and should not be seen as the opinions or views of anyone else.

General Comments

The Universal Service regime in Australia has been bedevilled by federal politics and lobbying by big telecommunication service providers for over 25 years. The end result has been an economically inefficient and technically inferior outcome for the provision of services to the uneconomic telecommunication areas of Australia.

In a 2018 article for the *Australian Journal of Telecommunications and the Digital Economy (ATJDE)* titled 'What Now for Australia's NBN?'⁴ I summarised the policy flip-flops regarding

¹ For more details, please refer to my Linked In profile: <https://www.linkedin.com/in/mclarengary/>

² Please see previous submissions to ACCC Communications Market Study (<https://www.accc.gov.au/system/files/Submission%205%20-%20Gary%20McLaren.pdf>), the Joint Standing Committee on the National Broadband Network (https://www.aph.gov.au/Parliamentary_Business/Committees/Joint/National_Broadband_Network/smallbusinessandcase/Submissions) and the ACCC's inquiry into Superfast Broadband Access Service (SBAS) and Local Bitstream Access Service (LBAS) declaration inquiry (<https://www.accc.gov.au/system/files/Gary%20McLaren%20-%20submission%20to%20the%20LBAS%20%26%20SBAS%20declaration%20discussion%20paper.pdf>)

³ See <http://www.telecoms.net/>

⁴ McLaren, G. 2018. 'What Now for Australia's NBN?'. *Australian Journal of Telecommunications and the Digital Economy* Vol 6, No 4, Article 162. <http://doi.org/10.18080/ajtde.v6n4.162>. Published by Telecommunications Association Inc. ABN 34 732 327 053. <https://telsoc.org>

regional telecommunications investment spanning the period from Telecom Australia to the current NBN under the heading ‘Australia’s Bush Telecommunications Problem’.

In essence Australia’s political landscape has preferred a policy regime where the necessary cross-subsidy to fund investments in the uneconomic regional areas of Australia is hidden behind its state-owned monopoly companies. Originally this was the Post Master General’s department which carried over into Telecom Australia / Telstra. Currently the cross-subsidy is mainly managed within NBN Co. However, there has still been significant direct subsidies by the Federal Government to cover mobile blackspots, legacy telephone services and regional connectivity as well as various state government supported schemes.

I provided a detailed submission to the Productivity Commission’s 2022 inquiry into Australia’s Data and Digital Dividend which had a detailed section on ‘Investing in Regional Digital Infrastructure’ that details the high costs of the current Universal Service regime. I have attached a copy of that submission to the Productivity Commission to this submission.⁵

In summary my 2022 submission to the Productivity Commission’s inquiry raised the following key points :

1. The total subsidy that is funded by industry levies and direct government grants to provide fixed and mobile services in uneconomic areas is of the order of \$1.1 billion per annum. This is approximately 2 to 2.5% of the total revenue of the telecommunications market in Australia.
2. NBN Co’s reported subsidy for the Fixed Wireless and Satellite components of its network is approximately \$0.4 billion per annum with the majority of this internally funded from revenues earned in metropolitan areas. This understates the actual subsidy as no account is made for the uneconomic areas in its fixed line broadband footprint. As stated by the Productivity Commission, the lack of transparency in this internal subsidy is of serious concern.
3. To put the Universal Service arrangements on a sustainable footing, a long term, broadly applied and predictable funding arrangement is required to enable the telecommunications industry to confidently gear up for investment in the uneconomic areas. I have suggested a retail levy on all telecommunications services (fixed, mobile, enterprise and other new services) to ensure an even playing field that does not distort competition between providers and technologies. However, an industry levy designed appropriately may also be able to achieve the same outcomes.
4. A competitive market-based mechanism to provide funding to service providers to make the necessary network and system investments necessary to achieve service levels and quality in line with the overall Universal Service policy. These service levels will evolve over time as the telecommunications sector continues to develop new products and services. Benchmarking with services available in metropolitan areas will be important to ensure regional services in uneconomic areas are not disadvantaged.
5. Consideration should also be given to establishing service resiliency requirements that take account of Australia’s increasing incidence of natural disasters and the importance

⁵ The submission is available also at : https://www.pc.gov.au/_data/assets/pdf_file/0006/347775/sub137-productivity.pdf

telecommunications has in responding and dealing with such emergencies. Funding to improve network and service resiliency by operators may also be managed using the competitive market-based mechanisms that are developed over time.

6. A centralised government run organisation (existing or new) should be given the accountability to efficiently fund, manage and monitor the processes necessary to increase efficiency and performance of operators providing services in uneconomic areas using subsidised funding.

There is an opportunity to use the current inquiry to begin a fundamental reform the Universal Service regime in a way that can increase efficiency and enhance outcomes for regional and remote Australians.

The current subsidy of over \$1 billion per annum for uneconomic telecommunication (representing 2 to 2.5% of the national market's size by revenue) is extremely high and the outcomes are not commensurate with this funding. It is understood that the subsidies provided in other comparable jurisdictions such as the USA and Canada are substantially lower (closer to 1% or less than the market's size) and the outcomes are not seen to be less than those in Australia⁶.

It is important that our political leaders and policy makers seriously consider changing the regional telecommunications funding and investment model as soon as possible to ensure Australia is best able to leverage its vital regional natural and human resources that have for a long time been a key part of the nation's competitive advantage.

Yours sincerely,

Gary McLaren

⁶ I have only performed a cursory survey of public information available in the USA and Canada. A more detailed benchmark study would be needed to understand more accurately how Australia's Universal Service regime compares to those in other markets.