

3 November 2015

Richard Bullock
Director, Market Analysis
Bureau of Communications Research
Department of Communications and the Arts

By email: BCR@communications.gov.au

Dear Mr Bullock

The Bureau of Communications Research (**BCR**) has been tasked by the Government to report on funding options for NBN Co's provision of non-commercial satellite and wireless services in regional areas. Vocus thanks the BCR for the opportunity to respond to its report.

In its Final Consultation Paper, the BCR proposed funding NBN Co's non-commercial services through the introduction of a levy on each service in operation (**SIO**) on high-speed fixed line networks servicing residential and small business customers (**NBN non-commercial services levy**). The BCR's proposal represents a narrowly targeted levy given that it would be collected only from a particular segment of the telecommunications industry rather than the broader industry in general. In this sense, the BCR's proposal is markedly different to the funding methodology that is used to subsidise Telstra's provision of standard telephone services in non-commercial areas known as the Universal Service Obligation (**USO**). As the operator of the largest network within the proposed scope of the levy, NBN Co will be the largest contributor and be responsible for an estimated 95% of the cost of subsidising broadband in non-commercial areas. The remaining 5% will be paid by the operators of several other high-speed fixed line networks that are significantly smaller than the NBN.

The BCR has proposed a narrow levy on the basis that high-speed fixed line networks represent direct competition to the NBN and hence, directly impact NBN Co's ability to cross subsidise its losses in non-commercial areas from its profits in commercial areas. The BCR has stated that mobile broadband is not comparable to fixed line broadband and should therefore not be within the scope of the levy. Vocus considers that it is incorrect to discount the ongoing technological advances in mobile and fixed wireless broadband, which we believe is comparable to fixed line broadband and is likely to emerge as a significant substitute and competitor to fixed line services on the NBN, even in commercial areas. We consider that SIOs on mobile and fixed wireless broadband networks should be included within the scope of the levy. We consider that this far broader collection base will reduce the levy's distortive effect on competition in telecommunications markets by considerably lessening the cost applicable for each SIO and as such not result in as significant a barrier to entry for future fixed line operators or a competitive advantage to fixed wireless and mobile operators.

The speeds of fixed wireless or mobile 4G and above broadband services are easily comparable to plans that are offered on the NBN. There are several million such fixed wireless and mobile broadband SIOs. Spreading the cost of the NBN's non-commercial services across a far broader section of the telecommunications industry and end-user customers is fairer as it recognises the ability of alternative broadband technologies to compete for residential and small business customers and does not result in a handful of operators being forced to pay such a large annual amount, which we believe would have to be passed on to their end-user customers. A large collection base also provides greater certainty that sufficient amounts will be collected for the levy from non-NBN Co sources. We consider that the narrow levy will result in reduced

investment in fixed line networks and result in more consumers choosing to acquire fixed wireless or mobile rather than fixed line broadband services in order to avoid the higher charges that will flow to end-users from the levy.

The BCR's investigation coincided with a related study into the universal service obligations, which recently resulted in publication of the Regional Telecommunications Review 2015. The two investigations both looked at the future provision of telecommunications services in regional Australia but have proposed different funding mechanisms, with the Regional Telecommunications Review recommending a broad recovery base to subsidise regional telecommunications services, including NBN broadband services. Vocus considers that the Regional Telecommunications Review's recommendations and the BCR's proposal can be combined by a NBN non-commercial services levy that is collected from all high-speed broadband services, whether fixed line, fixed wireless or mobile.

Yours sincerely



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Director, Carrier Relations, Regulatory and Strategy
Vocus Communications