Cross subsidy without monopoly

(A version of this was published in the AFR on 27 April, 2011)

In 1988 a Labor Government commissioned the world's first costing of a telecoms community service obligation (now called the USO) to establish whether universal service would be threatened by the introduction of competition. Fixed and mobile competition started in 1992. Now we have a Labor Government that is establishing a new monopoly to support cross-subsidy of broadband. What has changed and are there other options?

A seismic shift in telecoms policy took place in April 2009 when Labor moved the goal posts from seeking a value-for-money FTTN (fibre to the node) broadband network to a no-expense-spared FTTP (fibre to the premise) broadband network. This finessed the $20 billion sub-loop compensation issue associated with using Telstra copper for the FTTN while also accomplishing structural separation of Telstra through the enforced migration of customers off the copper network. The latter was particularly important because competition between a Government FTTP and a Telstra copper network (whether upgraded to FTTN or not) would be financially unsustainable. After years of promoting infrastructure based competition, the ACCC is being made to do a back-flip to focus only on service-based competition.

As it becomes clear that FTTP is going to cost a lot more than we were told, can we afford to moth-ball existing broadband networks like Telstra's hybrid fibre coaxial pay TV network? The argument is that without an NBN monopoly, other broadband networks will cherry-pick urban areas that are cheap and profitable to serve: "the only way you can (deliver uniform prices across the country) is to ensure you a have a government monopoly," Senator Conroy, said on April 11th. Again, the ACCC must do a back-flip because it rejected Telstra's arguments for averaged unbundled local loop pricing to serve the same purpose.

Economists hate cross-subsidy. They prefer budget funding. But if we have to have cross-subsidy, another approach which does not scrap alternative broadband networks and supports the uniform pricing objective is to tweak the USO funding regime. Any positive difference between the cost per line by area and the $25 uniform access price can be taken as the implicit "tax". If NBN Co customers pay this to help country customers get access at $25, then so should customers on other access networks. This can be done under USO arrangements. Depreciated HFC networks can bear the same levy amount as NBN Co and still be competitive. Nobody likes to pay such an impost but it is better than being forced to shut down existing networks or get over-built at tax-payer expense.

The costing of the original USO funding arrangements was modeled and subject to academic dispute. This time around, the numbers should be real and auditable so a levy on access lines would be practical and support equity objectives without scrapping current serviceable broadband networks.

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