

## **Economuse, 30 March 2007**

### **Broadband – Picking winners or correcting failures?**

**Is the ALP's proposed national FTTN broadband network visionary nation-building or economic vandalism? I like it but more detail is required.**

Australia's international ranking on broadband penetration is a cause of national embarrassment. More importantly, electronic communications is increasingly seen as an enabling technology that can transform economies and enhance productivity. I believe there is political consensus on these points but the main parties differ on how this opportunity should be realised - Broadband Connect is also trying to create infrastructure competition while the FTTN proposal seeks to establish a ubiquitous broadband network quick-smart.

#### **Correcting market failure**

The Prime Minister asks why public money should be used to fund something "the private sector ought to provide". What about Broadband Connect? This is a "partnership" approach aimed at getting broadband to "1.6m homes, businesses and not-for-profit organisations in regional, rural and remote areas" [1].

The political parties agree that there is market failure - the market will under-serve non-metro areas. There is little or no commercial interest in building terrestrial broadband networks outside metro areas. But the parties differ in the solutions they offer.

Broadband Connect is technology-neutral while the ALP proposal is based on copper in the last mile. The latter could be seen as "picking a winner" but with regulated open-access and no constraint on alternative networks, it does not matter. Yes, the ultimate goal is fibre all-the-way (FTTH), but it is too expensive.

#### **Correcting policy failure**

The ALP claims there is a policy failure because the Telstra and G9 plans depend upon changes to legislation that the Minister has refused to countenance before 2009. Since the ALP announcement, we hear that the Minister is exploring the rival (metro-only) FTTN proposals and will consider "practical and legitimate measures" to aid them. A possible example of a missed opportunity is the failure to bring Telstra's 'rogue regulator' to heel with a clear statement about uniform pricing policy.

Both major parties agree that any FTTN builder is entitled to a "commercial return" on their investment. I have argued before in this column that access pricing at TSLRIC is chilling investment. It does not mimic commercial outcomes.

#### **Pre-conditions for the FTTN**

The ALP proposes a beauty-contest in which any organisation willing to provide 12Mbps over an open-access network to 98 percent of Australians within five years is invited to

apply for up to \$4.7bn of government equity with “ambit claims” for the changes to legislation they need to support the investment. I have suggested six criteria that should be used to assess broadband proposals and the ALP approach sits very comfortably with them all [2].

We know G9’s proposal requires a prohibition on competing network build. I was at the National Press Club for the ALP announcement [3] and got the strong impression that this would be too big a request; too big for any government to stomach. Persuading Telstra to join G9 or part willingly with its access network also seems unthinkable.

An obvious Telstra claim is a clearer mandate for uniform pricing, as noted above. I am not sure that abolishing Parts IIB and IIC (concerning conduct and access respectively) of the Trade Practices Act will do much to stimulate investment; but I believe the ACCC should account for using these parts of the legislation rather than the general provisions that apply to all industries.

### **A clear choice**

Present policy is more concerned about nurturing competitive infrastructure than obtaining a ubiquitous broadband network. Even in the long-term, the benefits are uncertain in a country with Australia’s challenges and a natural monopoly in the fixed access network.

The ALP approach is more concerned about realising the national benefits of broadband than developing alternative access networks. It looks like higher ground to me.

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[1] Broadband Connect and Clever Networks – Discussion Paper, November 2005 (pages 4 and 9)

[2] See “How to get true broadband” slide pack of 23 February speech to TSA on my home page.

[3] I was a guest of Telstra but please note that I have not received any work or payment from Telstra in the last two years. My opinions are my own and I back them up with evidence and argument.