

ECONOMUSE

Mobiles and the USO

This week's report by Reg Coutts on re-thinking the USO does not go far enough.

Reg Coutts has made a worthwhile contribution to the emerging debate on the future of the universal service obligation (USO) in a paper released this week by Vodafone Hutchison Australia. But, he stops short of its logical conclusion.

Reforming the universal service obligation (USO) is very topical. The [Shiff](#) Regional Telecommunications Review is asking *“Do we need to continue guaranteeing the standard telephone service (STS) for all (or only some) consumers, and if so to what extent?”* (Q11). And ACCAN will hold a major [conference](#) on affordability in September.

In my opinion, the Bureau of Communications Research (BCR) is not going to help much. It is about limiting the damage to the internal funding of NBN's universal pricing caused by cream-skimming. It is not about the USO. It is looking only at funding the losses on NBN's fixed wireless and satellite services. See the critique of the BCR's first consultation paper in [Economuse](#) last month.

The USO is essentially about providing all Australians with access to an affordable telephone service. The context for this worthy objective has changed a lot:

- As Reg says, the assumption that telephony would be delivered over a fixed line is clearly no longer true. The ACMA [reports](#) that in December 2014 *“nearly one-third (29 per cent) of adult Australians were mobile-only phone users—with a mobile phone but no fixed-line telephone at home. The incidence of mobile-only phone use has increased substantially over a four-year period from 2.2 million at December 2010 to 5.2 million at December 2014”*.
- The policy focus has shifted from voice to broadband. The NBN itself is a universal broadband service project. With the Coalition Government's Digital First Strategy, all government services and public interactions are to be available digitally by 2017.
- Telstra is no longer the vertically integrated supplier of the USO. Reg says that the NBN should be deemed as the “Universal Infrastructure Provider”. Really? Who are you going to call? The obligation to serve falls first on the retail provider.
- Copper will no longer be the transport medium for voice once the NBN is completed. As a result, many aspects of the STS are now “broken concepts” (e.g. preselection and local call areas).

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- Circuit switched telephony is dying. Soon voice will be data on both fixed and mobile networks. BT has [asked](#) Ofcom to review its OpenReach obligations in its strategic review starting this month.

Coutts (or Vodafone?) thinks the current USO levy *“is essentially an anti-competition tax on industry to benefit the already dominant telecommunications provider”*. Really?

But it may be possible to argue that the reasons why Telstra is getting \$253 million p.a. until 2032 to maintain some copper services have been overtaken by mobile investments. The May 2010 NBN Implementation Study found that *“99.75 percent of all premises are capable of receiving voice over Telstra’s copper network, with low latency and high availability providing a high quality of service”* (p319). But *“A number of premises that today receive copper-based voice services will, however, be unable to receive mobile voice services”* (p321).

Although there have been significant investments by all the mobile operators since 2010, the Broadband Availability and Quality [Report](#) found that while about 8.8 and 6.4 million premises had access to 3G and 4G mobile broadband services respectively at October 2013, over a million of the most poorly served fixed service customers (categories D and E) did not have access to either 3G or 4G.

Will this month’s [announcement](#) of the nearly \$400 million Mobile Regional Blackspots programme (with more to come) and another \$500 million from Telstra over the next two years will bring mobiles to the last million? I doubt it.

The Universal Service Fund proposed by Reg has merit. He intends that the levies collected do not go to Telstra but to filling-in mobile blackspots and funding other universal service programmes. Isn’t a corollary and one logical outcome of his observations and arguments that the USO moves from the fixed to mobile networks? This has a number of attractions:

- ✓ First, the USO obligation attaches to retail service providers (now you know who you are going to call)
- ✓ Second, there is a natural default provider (Telstra)
- ✓ Third, it is contestable.

This is only one of a number of options that I am exploring. It is a very complex area and there many facets of USO policy that are inter-related. However, the deeper I get, the more it seems to me that too much attention is given to the supply side of the USO question – coverage and technology. More attention needs to be given to the demand side – what do the customers we seek to protect with USO policy need and how do pricing and the existing support programmes affect them? I do not think Reg has helped redress this imbalance.

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