CommsWire

ECONOMUSE

The NBN and infrastructure competition can be compatible

There is an urgent need to address the TPG challenge to NBN Co's fixed broadband monopoly. But the solution is not to remove the loopholes that TPG seeks to exploit.

Infrastructure competition should be welcomed – if it plays its part in making universal broadband service available. That is what Bill Morrow is now asking for with a levy on competitive broadband access networks (*CommsWire*, 16 April 2014).

The policy the new Government inherited, which required mothballing networks that could compete against the NBN do as to underwrite an internal cross-subsidy, was a travesty. So, is one answer to remove the cross-subsidy?

Economists generally disapprove of cross-subsidies, including Vertigan Panel member Professor Henry Ergas: "The Commission should disallow NBN Co from recouping subsidies to high cost areas from its overall allowed revenues," he said in 2012. "Instead, NBN Co should be required to set prices in low cost areas at levels that reflect costs in those areas.

"If it chooses to set prices in high cost areas at levels that match those in low cost areas, the consequent losses should be recouped through a charge on Government. Such a charge would obviously be reflected in the Government's budget process and hence would be subject to the disciplines, transparency and public accountability that process involves."

But how would TPG (or Telstra) feel about NBN Co matching their prices in low-cost areas? NBN Co has already been challenged on the issue of competitive neutrality on new developments (see the NBN '*Regulatory Issues Framing Paper*', p4).

(The issue of whether public investment complements or crowds-out private investment is difficult. The EU has developed some guidelines which I applied to the two extreme positions taken on this issue in Chattanooga and by the Australian NBN. See '*EU guidelines for public investment in broadband*', October 2012, at www.deridder.com.au

Also, if NBN Co. must price access to cost in low cost areas, what is to prevent it also pricing to cost in high cost areas? The Australian Competition and Consumer Commission has been silent on geographically de-averaged access prices in the case of the NBN. Historically, it has insisted on this for unbundled local loop, with the result that nobody (apart from Telstra) was interested in providing services to regulated high cost areas.

CommsWire (ISSN 2202-4549) is published by iTWire Pty Ltd. 21 Jenkins St, Caulfield South, Vic 3162
Editor: Graeme Philipson • graeme.philipson@itwire.com • Tel: 0418 609 397
Editor in chief: Stan Beer • stan.beer@itwire.com • Columnist: John de Ridder • derridder@bigpond.com
Advertising: Director of Digital Media, Andrew Matler: andrew.matler@itwire.com • Tel: 0412 390 000

The same could happen again with retail providers (possibly including Telstra) reluctant to provide service using NBN access in high cost areas – but they may look for alternatives like mobile broadband.

The complementary solution may be direct subsidies to keep prices down in high cost areas. But governments are not keen on direct subsidies because they are reflected in their budgets. And consumers have little confidence that direct subsidies will not suffer in future budgets. While ever NBN Co is government-owned, the government bears any losses that the company makes. But what happens if (or when) NBN Co. is privatised?

Another approach that is compatible with infrastructure competition and ensures that all providers make a contribution to connecting non-commercial customers is the 'excise tax' or levy recently mentioned by Bill Morrow. I have previously proposed such a levy, in submission to the Senate Select Committee on the NBN (April 2010) and most recently in my submission to the Vertigan Panel (March 2014). Both these proposals can be found at www.deridder.com.au

Ideally, access prices should be cost-based to ensure efficient bypass decisions by a TPG or a Telstra. The geographically uniform prices set by NBN Co conceptually contain two elements: the cost based access price and a contribution to the deficit incurred in serving non-commercial customers.

When these are lumped together, as they are now, there is an economically inefficient incentive to bypass NBN Co, because the cost of doing so is less than the uniform access price. But if a contribution from bypass providers is obtained through an excise tax, this can reconcile the objectives of universal access and the recovery of costs by NBN Co in the presence of infrastructure competition (i.e. bypass).

Laffont and Tirole, in their important 2002 work '*Competition in Telecommunications*', say that In some countries "such a tax is politically unlikely and is almost never mentioned in the regulatory debate, even though it could in principle be repackaged as a tax on the whole industry (as will be the case for the funding of universal service) in order not to make it look discriminatory."

But such a scheme could be considered within the Universal Service Obligations arrangements in Australia. Unfortunately the NBN Strategic Review has redacted so much cost information that it is difficult to calibrate the 'excise tax'.

These issues need to be resolved if NBN Co is to face competition in the provision of broadband infrastructure in Australia.

John de Ridder

John de Ridder is an independent telecommunications economist