



REGIONAL TELECOMMUNICATIONS REVIEW 2015

SUBMISSION BY VODAFONE HUTCHISON AUSTRALIA

JULY 2015



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Introduction

Vodafone welcomes the opportunity to make a submission to the 2015 Regional Telecommunications Review. The Independent Review Committee's assessment comes at a pivotal time as the NBN rollout accelerates, mobile broadband take-up increases and the digital revolution provides new and exciting ways to communicate, seek information and transact. It is therefore essential that public policy settings ensure that regional Australians receive the optimal benefits of these developments.

Access and Choice

Australia's telecommunications market has undergone profound changes in the last 20 years. The rapid uptake of new technologies has fundamentally changed our lives and benefited our economy. Consumers are increasingly data hungry and demanding improved fixed and mobile data performance and coverage. Businesses are calling for access to next generation mobile networks and high speed broadband to improve productivity.

Unfortunately in many places in regional Australia, consumers are being denied what many in urban areas now consider to be basic elements of a telecommunications service:

- Access to reliable fixed and mobile voice and broadband services; and
- Choice of a range of telecommunications providers.

Traditionally, policy-makers have focused on determining the adequacy of *access* to regional telecommunications service and neglected the need for effective *choice* in regional Australia.

There is a tacit presumption that regional consumers do not prioritise the need for choice and a level competitive playing field. A recent study undertaken by Empirica Research (included as an attachment to this submission) finds that this is demonstrably false. There is a strong regional consumer preference for policies that improve telecommunications services in ways that promote choice and competition.

Further, it is incorrectly assumed by policy-makers and other stakeholders that Australia's geography and low population density mean that market based mechanisms cannot be nurtured, and therefore what is required is significant government involvement in delivering regional telecommunications services. Inevitably this has often resulted in overly prescriptive regulation and ad-hoc public funding to extend existing infrastructure.

This approach has not tackled the fundamental constraints on delivering sustainable and ongoing improvements in regional telecommunications services. It has also led to a series of policies that have benefitted the incumbent telecommunications provider and the dependence of many regional Australians on this single provider.



Collaboration and coordination of infrastructure investment

Australia has one of the most distorted regional telecommunications markets in the OECD, with limited effective competition for both fixed and mobile services. This results in less choice, higher prices and less telecommunication investment.

Overcoming the roadblocks to competition in regional areas will ensure consumers and businesses receive more coverage, better value, better service, choice and innovation. Government can play a greater role in facilitating the co-ordination of efficient telecommunications investment. Public funds should be used to encourage co-investment at the infrastructure level that promotes improvements to regional retail competition and provide greater consumer choice.

It is important to recognise that the limitations to regional service performance are not necessarily the result of a lack of aggregate investment in regional telecommunications infrastructure. Rather, it is a lack of efficient coordination and the unnecessary duplication of infrastructure that is holding regional Australia back.

There is a substantial amount of money going into regional telecommunications. For example, over the next decade there will be public and private sector expenditure that includes at least:

- \$6 billion on NBN's fixed wireless and satellite services (plus several billion dollars on the NBN Fibre to the Node network in most regional towns and cities);
- \$3 billion in Universal Service Obligation funding;
- Several billion dollars in mobile network construction and operation by the mobile operators;
- Over \$400 million in joint public and private sector mobile black spot funding; and
- Hundreds of millions of dollars in emergency services telecommunications infrastructure.

Telecommunications investments, particularly public investments, should encourage rather than prevent retail competition. The importance of finding the optimal policy and funding approach to addressing the regional competition problem cannot be overstated. Regional Australians should not tolerate inefficient allocation of taxpayers' money and we believe that the time is right to seek a new and better way for government to encourage more efficient investment and greater private, public sector and local community collaboration.

The success of the Federal Government's Mobile Black Spot Programme demonstrates there is a better way to allocating funding to uneconomic telecommunications infrastructure. Building on this initiative, there is an urgent need for a rethinking of the public policy approach to ensure a more effective allocation of funds and a greater focus on facilitating *access* to reliable fixed and mobile voice and broadband services and *choice* of a range of telecommunications providers.



This submission makes the following three recommendations:

1. Reform the current Universal Service Obligation scheme to help fund important telecommunications infrastructure in regional Australia.

A new, smarter policy approach that ensures all Australians have reasonable access to modern telecommunications services is required. Despite the opportunities provided by the NBN and the increasing use of mobile devices and data, the current Universal Service Obligation (USO) is a costly subsidy scheme for legacy fixed line phone services delivered predominantly over the copper wire network.

Included as an attachment to this submission is a report by Professor Reg Coutts that proposes a more transparent and efficient model to replace the current USO scheme.

2. Maximise the potential of the NBN to deliver greater competition in both fixed and mobile services in regional Australia.

With the NBN we have the unique opportunity to provide equitable access for voice and broadband services using new technologies. Vodafone strongly supports the NBN project and we believe it will help address some of the serious structural problems in the telecommunications sector.

In addition to upgrading fixed broadband infrastructure, the NBN should play a role in enabling the mobile revolution. With minimal re-scoping, the NBN can help to facilitate much needed improvements in mobile coverage and competition in regional Australia.

Included as an attachment to this submission is a report by the McKell Institute that outlines the benefits of this approach.

3. Implement a public policy framework that enables greater sharing of telecommunications infrastructure in regional Australia.

As well as USO reform, and re-scoping the NBN remit, it is vital that reform is undertaken to deliver a public policy framework that is focused on enabling parity of services and parity of choice in regional telecommunications.

We recommend establishing an Agency within the Department of Communications that has an ongoing role in facilitating improvements in regional telecommunications *access* and *choice*.



Regional telecommunications services

As noted above, Australia has one of the most distorted regional telecommunications markets in the OECD, with limited effective competition for both fixed and mobile services.

A recent study undertaken by the Centre for International Economics (included as an attachment to this submission) finds that this lack of competition has meant that Telstra customers in regional Australia are paying a premium of up to \$650 per year. According to the Centre for International Economics, up to 3.5 million regional consumers could benefit from better access to competitive mobile telecommunication services. Additionally, Telstra is the only available provider for 46 per cent of fixed line services in regional areas.

While the NBN will help to address some of the serious structural problems in the fixed line market, the lack of mobile coverage and choice in many areas is of particular concern. Policy-makers need to accept that Australia has a mobile monopoly of more than one million square kilometres and it is unlikely that these areas will ever benefit from either infrastructure or retail competition without reform.

Unfortunately, previous policy interventions by successive governments have entrenched this situation by providing funding to Telstra. More of the current mobile market coverage could be competitive if it were not for successive poor policy interventions, often by state governments, which have directly subsidised extended coverage by one mobile operator.

In Western Australia, for instance, the Government awarded more than \$39 million to Telstra to expand mobile coverage – enlarging Telstra’s coverage footprint in that state by a massive 22 per cent at taxpayers’ expense. In doing so, the Western Australian Government did not require this publicly-funded infrastructure to be able to be used by other mobile providers, thus locking in a regional monopoly and making the business case for expansion by any other mobile provider uneconomic without the same level of subsidy.

Vodafone contends that while it is the role of government to provide social funding to invest in infrastructure to provide a public benefit, this should occur in a competitively neutral manner. Policy responses and subsidies should benefit all consumers. Providing funds to one mobile operator to expand coverage that only benefits one group of customers is not the most effective use of public funds. This policy response is responsible for undermining competition and robbing regional consumers of choice. Further it has undermined the business case for other mobile carriers to invest and further perpetuated the unnatural monopoly that exists outside of the major cities and regional centres.

For more than a decade, successive Regional Telecommunications Reviews have commented on this situation. Over time, concerns about mobile competition in regional Australia have increased.



The 2002 Estens Review¹ found that:

The Government should review arrangements for the costing and funding of the Universal Service Obligation. This should also include whether current arrangements are impeding the development of competition in regional, rural and remote Australia.

The 2008 Glasson Review² noted:

In remote areas where there is terrestrial mobile phone coverage, it is more likely that there is only one carrier. This not only means people in these areas are denied choice of supplier, it also means that customers of businesses in these areas are unable to make and receive calls unless they purchase a service from that one carrier.

The 2012 Sinclair Review³ found that mobile coverage in regional areas was having a negative impact on the economic viability of regions:

Poor mobile phone coverage affects business productivity and limits the ability of regional businesses to fully participate in the digital economy... The committee recommends a co-investment program, jointly funded by the Commonwealth and interested states or territory governments, to expand the mobile coverage footprint in regional Australia, focusing on priority regions selected with community input. Open-access arrangements for other carriers to tower infrastructure and/or domestic roaming arrangements should be a feature of the program.

Since the 2012 Regional Telecommunications Review, the mobile revolution has continued. The latest ACMA figures⁴ show that 5.2 million adult Australians are mobile-only phone users, with a mobile phone but no fixed-line telephone at home. This is an increase of 3 million people in the past four years. There are now 9 million fixed-line services in Australia and 31 million active mobile subscriptions in Australia⁵.

Despite the growing importance of telecommunications in today's digital economy, many regional Australians are still denied access to mobile coverage and choice of provider. Indeed public policy has

¹ Estens, Connecting regional Australia : the report of the Regional Telecommunications Inquiry, Australian Government, 2002, p. 109

² Glasson, Regional Telecommunications Review, Australian Government 2008, p. 137

³ Sinclair, Regional Telecommunications Review, Australian Government, 2012, p. 34-35

⁴ Research acma snapshot, June 2015

⁵ ACMA Communications report 2013-14



largely failed to acknowledge that regional consumers consider the ability to choose a provider as a mark of telecommunications success.

A recent study undertaken by Empirica Research (included as an attachment to this submission) finds that:

- 83 per cent of regional consumers agree that being able to choose their mobile provider is important;
- 59 per cent of regional consumers agree that they would change providers if another provider offered the same or better coverage; and
- 80 per cent of regional consumers want the NBN to deliver a mobile solution.

It is a positive development that the current Federal Government has implemented a scheme to improve mobile coverage and competition in regional Australia. The success of the Federal Government's Mobile Black Spot Programme demonstrates there is a better way to allocate funding to uneconomic telecommunications infrastructure. The Mobile Black Spot Programme funding however is less than one tenth of the scale of the fixed line subsidies provided exclusively to Telstra under the Universal Service Obligation.

Building on this initiative, there is an urgent need for a rethinking of the public policy approach to ensure a more effective allocation of funds and a greater focus on facilitating *access* to reliable fixed and mobile voice and broadband services and *choice* of a range of telecommunications providers.

This is not a radical policy position but the interplay of the provision of telecommunications services and the need for incentives to invest in a competition-enhancing way has been largely overlooked in regional telecommunications policy to date.

We recognise that the NBN and the Mobile Black Spot Programme are important and substantial steps in the right direction, but both operate within a disjointed policy framework that is preoccupied with the priorities of the past. In other words, government policy has not provided useful operational direction as telecommunications needs and priorities have changed.

What is required is a more strategic, flexible, outcomes-focused policy framework. This is particularly important for the allocation of public funds for telecommunications infrastructure. The remainder of the paper outlines the need to better embed parity of service and choice in regional mobile telecommunications policy.



Extending mobile coverage and choice

In response to the Committee's request for advice on barriers to extending coverage and increasing investment in mobile networks in regional areas, Vodafone identifies the following impediments:

- (a) Because it is the largest operational cost, high transmission (backhaul) access pricing is the most significant impediment to delivering viable competitive mobile services. This is not being addressed by the current regulatory approach.
- (b) Insufficient incentives for co-location and deeper sharing of infrastructure, including with the NBN, is also a significant impediment. Government incentives should encourage ongoing co-investment in infrastructure so the notion of sharing is included in the technical and strategic decision-making of all those involved in the investment.
- (c) Government policies that have protected the incumbent from competition in regional Australia are another major barrier to extending coverage and increasing investment in mobile networks in regional areas. USO subsidies to the incumbent and State Government funding for mobile black spots via tender processes that inadvertently advantage the incumbent are two examples.

In addition to the impediments referred to above, the lower availability of spectrum in regional areas and the disparity in holdings of regional spectrum between mobile operators is a significant issue. Current holdings greatly favour one provider and allocation mechanisms have not appropriately considered the implications of this. Vodafone notes that this topic is being considered as part of the Department of Communications' Review of the *Radio Communications Act*.

Cost of transmission

Telstra, as the legacy provider of telecommunications in regional Australia, has existing transmission links to almost every town in Australia. To build mobile towers, carriers need to connect the towers to fixed transmission links to take the voice and data traffic to the rest of the world.

Telstra's regional transmission has been declared by the ACCC under Part XIC of the *Competition and Consumer Act*. This means that the pricing is regulated. Unfortunately the ACCC has not yet set the prices at appropriate levels to overcome Telstra's advantageous market position.

The current cost model used by the ACCC to determine the pricing for transmission is well above cost and is manifestly inadequate. Owing to the cost of transmission and the legacy advantages Telstra is able to assume, network infrastructure competition and expansion remains uneconomic in many places in Australia.

The ACCC should develop a comprehensive cost based price for transmission. This will improve the business case for coverage expansion by mobile operators in regional Australia. We recommend that the Government commissions an independent assessment of the regional transmission market to determine



if a more comprehensive policy solution can be developed. One option is the re-establish a 'Regional Backbone Black Spot Programme' for non-commercial transmission services which, like the current Mobile Black Spot Programme, leverages the NBN network and is designed to improve services and promote competition.

Infrastructure sharing

Given Australia's large land mass, small population and relatively low urban density, in many places it only makes sense to build one set of infrastructure. Co-locating on mobile phone towers and the sharing of transmission between base stations and exchanges are examples of this.

There are many benefits to be gained from the greater sharing of mobile infrastructure. Indeed, it is Vodafone's international experience that infrastructure sharing in regional areas is increasingly the norm rather than the exception. As well as commercially driven infrastructure sharing, many government regional telecommunications programs around the world provide incentives to share infrastructure rather than duplicate it⁶.

Policies that promote infrastructure sharing, particularly in a market and geography like Australia, are likely to result in long term win-win outcomes for industry and consumers. This is because costs are reduced as investments are shared and this in turn increases the economic viability of regional network expansion.

Vodafone recognises the current Federal Government's efforts, through initiatives such as the Mobile Black Spot Programme, to encourage greater infrastructure sharing both with the NBN and amongst mobile network operators. There is enormous potential in the Programme's funding conditions which require the winning bidder of a site to explore opportunities to share or co-fund with other mobile network operators.

The Programme has also provided a demonstration of the benefits that can flow to regional communities as a result of locally-led investment planning and initiatives. For example, two of the Vodafone sites to be built under the Programme in NSW will be built with support from Jemalong Irrigation, as well as Forbes and Lachlan Shire Councils. The Jemalong sites are a great example of a local business working with the local level of government and a mobile network operator to improve the business case for new mobile base stations in an area which is currently under-served. As discussed

⁶ See for example: <http://www.mobilemastinfo.com/network-sharing-and-consolidation/> and <http://www.itu.int/itu-news/manager/display.asp?lang=en&year=2008&issue=02&ipage=sharingInfrastructure-mobile>



later in this submission, an ongoing funding mechanism will allow government and communities to collaborate and develop strategic plans to address the particular needs of their communities.

The Federal Government has recently committed \$60 million for Round 2 of the Mobile Black Spot Programme, with funding available over a two year period from 1 July 2016. This is in addition to the funding for Round 1 of the Programme of \$100 million. To further improve mobile coverage and choice in regional Australia and encourage greater infrastructure sharing, Vodafone submits that there should be expanded ongoing Mobile Black Spot Programme. This could possibly be funded by diverting a portion of the current Government USO funding of \$100 million per annum. This option is further discussed in a report by Professor Reg Coutts that proposes a more transparent and efficient model to replace the current USO scheme and is attached to this submission.

The NBN

The NBN will be replacing phone and internet services provided over the existing copper network with fibre optic cable to the node for 93 per cent of the population. For the remaining 7 per cent of the population (rural and regional) the NBN will provide internet services only, over a fixed wireless network of 2,700 towers, or via satellite, at a total cost of \$6.1 billion.

The NBN can assist the deployment of mobile coverage and choice in a couple of ways. Firstly, the scope of the NBN fixed wireless mandate could be extended to provide wholesale mobile coverage. This would significantly improve the depth of coverage to residences over the more targeted individual coverage of the mobile network operators.

The NBN wireless network footprint as it is currently stands reaches many areas where mobile coverage is also an issue. In these regional areas it does not make sense for every mobile network operator to build its own infrastructure or install active equipment on a shared tower.

It makes sense that, when building the fixed wireless network, the NBN considers whether it can also deliver better mobile coverage. The NBN should consider how it can work with mobile providers to also deliver a shared mobile network in those areas where it is uneconomic for any one carrier to build alone, and consider what options could be considered to deliver a single mobile infrastructure in regional areas with both public and private investment. It would be in the best interests of all mobile/wireless operators to collaborate on both passive and active infrastructure in regional Australia.

Further, mobile networks need fixed line transmission (backhaul) to take the data traffic from the tower to the exchange. The NBN could provide mobile operators access to its transmission network on reasonable terms to facilitate the supply of better mobile services in rural and regional areas. The Joint Parliamentary Committee into the NBN and the Sinclair Regional Telecommunications Review both recommended using the NBN to improve mobile backhaul.



Vodafone believes that the current review of the funding of NBN's non-commercial services being undertaken by the Department of Communication's Bureau of Communications Research must carefully assess how the funding of uneconomic NBN infrastructure plays an effective role in promoting fixed and mobile competition in regional Australia. It is essential that any solution must assess the long-term future of the USO.

Vodafone submits that a modernisation of the USO scheme could be used to fund important extensions to the NBN project. These initiatives should be brought forward as a quick win for regional Australia. This would also improve the business case for NBN by adding an additional income stream. Vodafone's submission to the review is included as an attachment to this submission.

Re thinking the USO

As noted in the Regional Telecommunications Review 2015 Issues Paper, the origins of the USO pre-date the advent of broadband and mobile phone technology and reflect the social obligation to ensure that all Australians had access to a fundamental telecommunications service.

Over more than a decade, three successive Regional Telecommunications Reviews have all commented on the increasing failure of the USO to achieve its perceived purpose. Unfortunately, successive governments have failed to act to address these concerns. However, we are pleased that the current Government is interested in a broader dialogue about whether there is a case for reform of the USO⁷.

In response, Vodafone commissioned Emeritus Professor Reg Coutts to analyse the current USO and propose recommendations to reshape the USO policy for the 21st century. A copy of his report entitled 'Better telecommunications services for all Australians: Rethinking the Universal Service Obligation' is attached.

Current USO

The USO was created to ensure that even in remote, uneconomic areas a voice telephony service could be provided and that payphones are reasonably accessible to all people on an equitable basis. The *Telecommunications Act 1991* provided that Telstra would bear the universal service obligation and all telecommunications carriers would be required to contribute to the cost of it.

In July 2012, Telstra entered into a contractual obligation to deliver the standard telephone service for a term of 20 years. At this time, the Government increased the annual USO levy provided to Telstra and included an annual contribution from the Government's consolidated revenue of \$100 million from

⁷ <http://www.paulfletcher.com.au/speeches/portfolio-speeches/item/1316-speech-to-the-accan-uso-forum.html>



2014-15. Currently, \$253 million per annum⁸ is provided to Telstra for the provision of a standard telephone service.

Once the NBN is rolled out, Telstra will deliver the standard telephone service via the NBN fibre footprint. Outside the NBN fibre footprint, which includes much of regional Australia, Telstra's ageing copper and fixed wireless network will deliver this service.

A new USO scheme

With the NBN we have the unique opportunity to provide equitable access for voice, and broadband internet services using new technologies to close the digital divide. Vodafone believes the USO as it currently stands, is out of step with this vision. A new USO scheme needs to be devised which delivers reliable voice and internet services for all Australians using a range of technologies being utilised by the NBN.

In addition a portion of the current USO funding could be used to improve mobile coverage and choice in regional Australia by co-funding much needed infrastructure in remote areas and creating incentives for the industry to further invest in and share mobile networks.

Professor Coutts makes five interrelated recommendations to replace the current USO policy with a more transparent and efficient approach which leverages the game-changing NBN network.

Recommendation 1: Universal Service Fund

Establish a Universal Service Fund (USF), managed by the Department of Communications, to help fund non-commercial but socially important telecommunications infrastructure. The USF would be funded from contributions via an improved levy scheme that would look to reduce the distortionary impositions of the current arrangements.

Recommendation 2: NBN as the Universal Infrastructure Provider

Consistent with NBN's current remit, formally designate NBN as the Universal Infrastructure Provider to connect all premises in Australia. This would mean that all Retail Service Providers on the NBN would be able to provide voice and broadband services to all premises in Australia.

⁸ Telecommunications Universal Service Management Agency (2014), Annual report 2013-14



Recommendation 3: NBN as the Standard Communications Service Provider

Plan the phase out of Telstra's current USO obligation, to maintain its copper network to provide a Standard Telephone Service, and provide funds to NBN to deliver a modern Standard Communications Service delivering voice and broadband capability to all premises.

Recommendation 4: Mobile coverage and choice

The Universal Service Fund should also consider the provision of funding for other essential services such as improving mobile coverage and choice in regional Australia via an expanded Mobile Black Spot Programme. The NBN should also develop a project plan to assist the industry expand competitive mobile services in regional Australia by providing access to NBN backhaul and by upgrading its fixed wireless towers to deliver a wholesale 4G regional mobile network

Recommendation 5: Broader range of telecommunications solutions

As an alternate to traditional payphone subsidies, consider broadening the remit of the Universal Service Fund to deliver a broader range of telecommunications solutions for regional communities and other consumers, such as public open access WiFi. Consideration should also be given to providing funds for small scale community-led communication projects to enable broadband services to all Australians.

The benefit of the approach espoused by Professor Coutts is that it will establish an ongoing source of funding to assist the Government to deliver a range of infrastructure solutions for regional Australia. This would be a profoundly positive development for regional telecommunications. No longer will funding be necessarily tied to policies that are focused on preserving legacy services. Instead the proposed framework will establish mechanisms that adjust as technology and regional consumer needs change.

Institutional reform

We note that the previous Regional Telecommunications Reviews, in particular the Glasson review, saw the important need to deliver a holistic policy framework to that continually assesses the various policies and programs of government to determine if they have enabled investment in telecommunications services and delivered improvements for regional consumers.

The challenge for the 2015 Regional Telecommunications Review is to articulate what reform to government institutions will deliver a more outcomes-orientated focus. The Glasson recommendations for institutional reform were a useful start, but we believe that a number of additional elements need to be added.



This includes the establishment of an Agency within the Department that has an ongoing engagement with the community and industry on the needs of regional consumers:

- The establishment of a Universal Service Fund will enable the Government to develop an ongoing programme of pro-competition infrastructure improvements. With this flexible source of funding we recommend the Department be tasked with operating the fund and developing a strategic outcomes-orientated approach. Importantly we believe that the Government should play a greater role in facilitating regional community collaboration with governments and industry to work to resolve concerns.
- The new Agency would manage funds (via the Universal Service Fund) that not only deliver improved services but enable effective competition and choice in regional Australia. This could start with current USO activities, funding non-commercial NBN services, an expanded and an ongoing Mobile Black Spot Programme. It could also include the administration of a fund that assists community-led local initiatives and public Wi-Fi infrastructure.
- An Advisory Committee made up of regional community membership would assist the Agency carrying out its duties. It would also be worthwhile for the Advisory Committee to play a role in assessing the efficacy of policy and regulatory decisions across government to deliver appropriate outcomes for regional consumers. For example it could play a role assessing whether spectrum allocation policy and ACCC Part XIC pricing determinations (and Part XIB Misuse of Market Power enforcement activity) have optimised the opportunities for effective competition in regional Australia.

Attachments

1. Empirica Research, 'Telecommunications in Regional Australia' Report, 2014.
2. Professor Reg Coutts, 'Better telecommunications services for all Australians: Rethinking the Universal Service Obligation' Report, 2015.
3. McKell Institute, 'Superfast broadband: The future is in your hands' Report, 2013.
4. Vodafone submission to Bureau of Communications Research Consultation Paper on NBN non-commercial services funding options, 2015.
5. The Centre for International Economics, 'Australia's telecommunications market structure' Report, 2015.