31 January 2017

Mr Paul Lindwell
Presiding Commissioner
Telecommunications Universal Service Obligation
Productivity Commission

By email: Telecommunications@pc.gov.au

Dear Commissioner

The Digital Industry Group Incorporated (DIGI) welcomes the opportunity to provide comments on the draft report released by the Productivity Commission on *Telecommunications Universal Service Obligation*.

DIGI comprises representatives from Facebook, Google, Microsoft, Twitter and Yahoo.
DIGI members collectively provide various digital services to Australians ranging from Internet search engines and other digital communications platforms. These services and platforms facilitate new distribution, marketing and revenue generating channels for Australian businesses and content creators. They are also driving fundamental changes to the way that business is conducted and content is created and distributed.

DIGI thanks the Productivity Commission for the opportunity to make this submission. If you have any questions or require any additional information, please let me know.

Kind regards,

Nicole Buskiewicz
Managing Director
DIGI

DIGI submission on the draft report on the *Telecommunications Universal Service Obligation*

1. Executive summary

DIGI understands that the Productivity Commission seeks to study the extent to which, in the evolving Australian telecommunications market, government policies may be required to support universal access to a minimum level of retail telecommunications services. In carrying out its inquiry, we further understand that the Commission will consider the nature, scope and objectives of a universal service obligation (USO), whether the retail market for relevant services will deliver appropriate outcomes for consumers without Government intervention and, if not, what options should be considered by Government to deliver universal services and the costs and benefits of these interventions.

2. Background: the benefits of digital or 'OTT' services

Before turning to the specific questions raised in the draft report, we wanted to provide, by way of background, some insights into the ways in which digital services are used by Australian households and businesses, and the benefit that this has within the Australian society and economy.

McKinsey&Co found that while digital services have the potential to deliver significant economic and societal value, this benefit is only just starting to be realised. Specifically, McKinsey found:

> "The speed and scale of adoption of social technologies by consumers has exceed that of previous technologies. Yet consumers and companies are far from capturing the full potential impact of these technologies. Indeed, new uses, technical advances and social business models will evolve, driven by user innovation and advances in technology."

a. Consumer and social benefits

Many aspects of Australian daily life are now being conducted online. People are able to stay in touch with family and friends throughout the day, across cities, across the country and around the world, and also receive news and information instantaneously. Research has shown that this has improved people's sense of well-being. For example, in a recent Facebook study, researchers found that: "[t]he more people talked one-on-one, such as writing wall posts or comments, especially with close friends, the more their well-being improved".

Many DIGI member services are used for socially beneficial purposes, including:

- Microsoft's Skype Translator, which now allows for audio translation in real time across English, Russian, Spanish, French, German, Chinese (Mandarin), Italian, Portuguese (Brazilian), and Arabic, enabling more people to connect across the world.
- Google Maps, which was engineered in Australia, last year saved Australian users 29 hours on the roads, on buses and trains and walking.
- And Twitter, which operates in over 40 languages and gives everyone the power to create and share ideas instantly, bringing people together across national, social and cultural boundaries.

The proliferation of content, applications and services available online has delivered enormous value directly to consumers. This includes greater consumer access to information, banking and healthcare, communities of common interest, new forms of media and entertainment, and civic participation.

b. Business and economic benefits

DIGI members make a significant contribution to Australian businesses, including those in traditional sectors, which can transform and evolve thanks to digital technologies. Indeed, Deloitte's *The Connected Continent II* Report found that "digital businesses are not a standalone industry category that sells to non-digital businesses; digital technologies are a strong part of the core and operation of these businesses [across different sectors],"and there are countless examples of Australian businesses utilising digital tools and services to grow their business.

One example is Quadlock, a Melbourne start-up that has used digital services and advertising to grow their business that now exports to over 100 countries. Similarly, Vuly, an Australian trampoline manufacturer, which started off as an online-only business has grown rapidly since its inception, with annual revenue from its Australian retail operations increasing from around $1 million in 2007 to around $30 million today. Today, Vuly trampolines are sold across a number of countries in the Americas, Europe, and the Middle East.

McKinsey also found that social technologies (being technology that allows people to connect and communicate online, referred to in the Issues Paper as "OTT services") can improve knowledge worker productivity by 20-25%. While in a recent study, Deloitte Access Economics found that small to medium sized businesses that have advanced levels of digital engagement are 1.5 times more likely to be growing revenue, are 8 times more likely to be creating jobs, are 7 times more likely to be exporting, and are 14 times more likely to be innovating by offering new products and services, compared to businesses with basic levels of digital engagement. At the macro level, in the past year alone, Google's digital technologies supported $15.1 billion in benefits for Australian business: "although different concepts, this economic activity is broadly equivalent in scale to half the annual output of the agriculture industry and double the size of the airline industry".

Against this background, DIGI believes that the many success stories of Australians engaging digital services to their benefit, some of which we have highlighted above, supports the observation made in the draft report that rapid developments in telecommunications technology are transforming the ways in which people live, work and play, and as the evidence suggests – for the better.

DIGI welcomes the opportunity to provide the Commission with the following comments in response to areas of focus identified in the Draft Report. While this submission is not intended as a comprehensive statement of DIGI's position in relation to the questions raised in the draft report, we hope that this response provides some useful context for the Commission.

3. Value provided by OTT services

As the Draft Report notes, some stakeholders have suggested that OTTs operate services similar to telecommunications services but are not subject to the same regulatory, taxation, and levy regimes as telecommunications providers, including possibly with a mandated contribution to universal service funds.

However, far from offering the same services, digital services and telecommunications services are fundamentally different in a variety of ways. Telecommunications operators control the underlying broadband access infrastructure, with few market players and high barriers to market entry. By contrast, online communications services do not control the underlying broadband access points. In addition, online service providers have significantly lower barriers to entry and are faced with many competing services. Consumers can add and delete communications apps at will, and are typically not subject to long term contracts. OTT offerings are highly competitive with one another; any additional fees and regulations would substantially harm the ability of OTT providers to innovate and provide the services that Australian consumers have come to expect.

The fundamentally different services provided by OTT providers and telecommunications providers do not compete in the Australian market. In fact, they support each other in a virtuous cycle. As a recent report by Asia Infrastructure Coalition notes, OSPs "increase the value of the operators' networks by creating and offering content that boosts demand for broadband services. As consumers use more bandwidth-intensive OTTs, such as video streaming, cloud services and video conferencing, they have the incentive to pay for higher tiered services, in terms of faster speeds and greater amounts of bandwidth, which operators price at a premium."[1] In essence, OTTs make contributions to the build-out of network infrastructure in Australia by generating more revenue from use of the network itself.

In any event, it should also be noted that online service providers already make substantial investments in communications infrastructure in Australia and the world at large. As the Ireland Commission for Communications Regulation recently noted "investment and innovation in

1 *Smart Regulation for OTT Growth* Asia Internet Coalition, p.12 October 2015. http://www.asiainternetcoalition.org/wp-content/uploads/2015/10/AIC-White-Paper-on-OTT.pdf

communications markets will come not only from traditional operators (in fixed and mobile markets) but also from other operators, such as OTT service providers."[2] While traditional broadband and mobile network infrastructure is *necessary* to the provision of OTTs, it is not *sufficient* to meet the needs of OTT consumers. The development of new technologies to connect underserved communities, provide content delivery networks and data centres are also important elements of the overall infrastructure required for online platform services to operate efficiently. Content and Application providers invest billions of dollars annually in a combination of physical facilities (such as data centres), fibre networks, servers and routers.[3] This alternative infrastructure helps to relieve pressure from broadband and mobile networks by locating the data nearer to the consumer thus providing connectivity benefits to both the telecoms operator and the end user.

For the reasons detailed above, DIGI agrees with the draft report that it would be impractical and imprudent to apply a levy on OTTs in order to fund a TUSO. As the Commission states, "simply extending regulation without an assessment of its consequences and differences in risk between traditional and new business models could quash innovative new approaches, reducing choice and resulting in consumers paying higher prices than they otherwise would".

We believe that this conclusion in the Commission's Draft Report is a progressive and constructive approach that supports innovation and choice and will ultimately deliver better outcomes for Australian consumers.

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2 *Draft ECS Strategy Statement: 2017 – 2019,* Ireland Commission for Communications Regulation, December 21, 2016 (page 35) https://www.comreg.ie/publication/draft-ecs-strategy-statement-2017-2019/

3 *Investment in Networks, Facilities, and Equipment by Content and Application Providers,* Analysis Mason, September 2014 (page 10). http://www.analysysmason.com/CAP-Internet-Sept2014