



3 August 2016

Mr Paul Lindwall
Commissioner
Productivity Commission
GPO Box 1428
Canberra City ACT 2601

Dear Mr Lindwall

Thank you for the opportunity to make a submission to the Commission's inquiry into the Telecommunications Universal Service Obligation (USO).

Infrastructure Australia supports the intended outcomes of the USO – that is, the delivery of reliable, accessible and affordable telecommunications services to all Australians. It is important that these outcomes be safeguarded. However, as outlined in the *Australian Infrastructure Plan* (the Plan) published in February 2016, there is a need to review the USO and consider modifying or phasing out the existing arrangement in order to respond to the evolving needs of telecommunications users.

The rollout of the National Broadband Network brings significant change in the provision of telecommunications services across urban and regional areas. This significant public investment, coupled with the range of shifting patterns of demand, as well as broad technological developments, provide a clear need for review of the USO and reform of its design.

Infrastructure Australia believes that a reformed USO should:

- first and foremost, focus on user outcomes to ensure all Australians have access to reliable, accessible and affordable telecommunications services, provided on a technology-neutral basis
- be transparent, both in terms of its design and its performance against set objectives over the life of the agreement and, where economically efficient, expose the service agreement to a competitive process to ensure the contract is achieving value for money.

Infrastructure Australia welcomes both the Inquiry and the Commission's continued engagement on this and other reform opportunities.

A community service obligation model should be well-designed, transparent and contestable

Provision of telecommunications services in sub-commercial areas is an appropriate avenue to apply a community service obligation model, where the government has a clear role to ensure all people have equitable access to an essential service.

The Plan provides high-level advice on the appropriate role and characteristics of community service obligations. Recommendation 6.3 states that governments should ensure community service obligations are 'well-defined, transparently disclosed to the community, paid for by taxpayers rather than other users and, wherever possible, exposed to a competitive process to ensure services are routinely delivered at the right level, for an efficient price'.



A community service obligation delivered under this model is likely to be more economically efficient, sustainable and fairer than other approaches. Community service obligations provide governments with an effective mechanism for overcoming instances of market failure in delivery of essential services, so long as they are well-designed and transparent.

Establishing objectives for the Universal Service Obligation

Historically, the USO (and similar arrangements before it) have provided strong social and economic benefits to regional Australia. There is clear merit in delivering equitable access to telecommunications services, particularly in rural and remote areas where people and communities can be vast distances from each other. Furthermore, the Emergency Call Service and National Relay Service provide essential assistance to Australians when they need it most.

The USO has helped to overcome the tyranny of distance. The sparse distribution of Australia's population outside its major cities makes service provision to rural and regional markets less commercially viable for private operators. There is an established role for government to support the delivery of adequate telecommunications services, as there is in overcoming other instances of infrastructure market failure. However, the importance of these services and the government's historic role in providing them should not preclude public scrutiny of the way in which they are delivered, or how much it costs to provide them.

Across all economic infrastructure sectors, governments have a duty to ensure services are provided in a way that best meets the needs of users, while minimising the burden on taxpayer funds. These should be the two primary objectives for the Australian Government in its oversight of the USO.

Objective 1: Meeting the needs of users

Reliable, accessible and affordable telecommunications services should be available to all Australians. While there is a role to safeguard this ability to connect with others, the technologies used should reflect the current and future needs of people rather than historic arrangements. The Plan notes that Australians have broadly shifted away from a reliance upon fixed line and payphone services, with many now solely reliant upon mobile services – particularly for voice services.

While there remain many parts of Australia without reliable mobile access, the Mobile Blackspots Program provides a mechanism for service improvements in these areas.

Similarly, the rollout of National Broadband Network provides opportunities for third-party providers to utilise publicly-funded infrastructure to improve mobile coverage, competition and service quality in regional areas. This was suggested in Recommendation 4.4 of the Plan.

Within these changing patterns of both demand and supply, the relevance of a technology-specific USO model in meeting the needs of current and future users is rapidly diminishing.

Transitioning to a technology-neutral approach could make universal service provision better meet user needs over coming decades. It is the outcome – that is, reliable, accessible and affordable telecommunications services – that is important to safeguard, not the mode of delivery. Governments should be mindful of the impact that minimum standards places on the costs of providing services. The standard set by government should strike an appropriate balance between service quality and service cost.

User outcomes should be of paramount importance through each element of a community service obligation. The Australian Government must ensure that an appropriate level of service quality is safeguarded under a reformed USO – and throughout the process of transitioning to it.



Objective 2: Ensuring the USO delivers value for money

The Telstra USO Performance Agreement provides the Australian Government some capacity to oversee some broad performance outcomes, managed by the Department of Communications. Some performance statistics are also reported through the Australian Communications and Media Authority,

However, the structure of the USO makes it difficult to determine the efficiency or value for money of this arrangement. Under the current arrangement, Telstra is not required to publicly report how much of the approximately \$300 million raised from taxpayers and industry is directly spent on implementing the USO each year. The Australian Government's necessary ex-ante payment structure through the current USO further reduces the opportunity to determine the efficiency of the arrangement.

Providing greater transparency through increased financial performance reporting would allow the government to identify efficiencies, and provide incentives for innovation in delivering services that better meet the needs of users. Increased transparency could help to provide assurance to taxpayers and industry of the fairness and efficiency of the USO as a means of safeguarding telecommunications service quality for all Australians. Furthermore, increased financial reporting would enable a mechanism for ex-post review of the efficacy of a reformed USO, and provide opportunities to rebalance payments based on outcomes.

Ensuring the USO delivers value for money is particularly important in the context of the substantial public investment in the National Broadband Network, which could help improve the efficiency of delivering telecommunications services currently provided under the USO.

As noted in Recommendation 6.3 of the Plan, where it is economically efficient to do so, community service obligations like the USO should be regularly exposed to a competitive process. This remains an effective and proven mechanism for ensuring that a community service obligation achieves value for money, and is provided at lowest cost to taxpayers.

Providing further evidence to the Inquiry

The Plan is enclosed to support this submission and provide further details on the key issues being investigated through this inquiry. Infrastructure Australia would be pleased to provide further evidence as required by the Productivity Commission.

Yours sincerely

Philip Davies
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Infrastructure Australia