



# USO Draft Report Response

January 2017

## Introduction

The Competitive Carriers Coalition welcomes the opportunity to comment on the Draft Report on the Telecommunications Universal Service Obligation.

The CCC was formed in 2001 to represent the interests of non-dominant carriers in the Australian communications markets.

The CCC has long argued for the reform or repeal of the TUSO, on the basis that it is unnecessary, uncosted, harmful to competition, and based on the delivery of outmoded technology. It creates a burden on CCC members seeking to compete with market incumbents. All CCC members were faced with having to contribute to the industry levy at relatively early stages in their development, often long before they achieved a position of sustained profitability.

While some consumers have, in the absence of an alternative model, advocated its retention, the reality is that the vast majority of Australians have no awareness of or need for the TUSO and those that do would be better served by access to more efficient, modern alternative technologies.

Yet all Australians pay for the TUSO, directly through their taxes and indirectly through the levy other carriers are required to pay to Telstra, and through the handbrake this applies to already anaemic competition in Australian communications.

For these reasons, the CCC is closely interested in the present inquiry.

## Response to Draft Report

The CCC strongly supports the Commission's draft recommendations that the TUSO be removed as soon as practically possible.

The draft report presents compelling evidence that the TUSO model is both unsustainable and indefensible.

Looked at objectively, stripped of arcane telecommunications industry jargon, and instead discussed as a social welfare program, the simple facts laid out by the Commission tell a shocking story of ineffective policy design, inadequate oversight, and financial waste that could have come from another century.

As the Commission found, the hard facts of the TUSO are:

- A private deliverer of a \$300 million social welfare program that has admitted it keeps no records of costs,
- The deliverer and the Government agencies overseeing and administering the program have no idea who it is benefitting,
- The Commission cannot calculate the cost per subsidised service within a range of ten times.
- The company delivering the service on behalf of the government is not a not-for-profit with limited resources rendering it incapable of record-keeping, but makes \$5.8 billion a year in profits. It keeps no accurate records because it is not required to.
- That company is not only delivering commercial services in the same market as the subsidised services, in competition with other providers, it is the dominant commercial provider of those services.
- Other providers (none of whom enjoy comparable profit margins to the service deliverer) are levied to support the TUSO subsidy and these monies go to their competitor; and,
- The services themselves are based on technology from the 1980s and earlier that are, in the Commission's view, "past their use by date".

The Commission, in laying bare these facts in such a clear and straight forward manner, has done Australian taxpayers a great service.

The TUSO has survived numerous internal Government inquiries over the past 20 years, despite the above characteristics of the program having been features throughout that time.

Also throughout that time, a succession of other State and Federal policies and programs have sought to address market failures and poor competitive outcomes. The TUSO has either duplicated or run counter to these interventions.

Government subsidies, including the TUSO, have subsidised Telstra in otherwise competitive markets, to the detriment of other participants and continue to create market distortions that continue to impede the development of competition to levels comparable to other countries.

For example, as discussed in the draft report, Telstra has deployed wi-fi networks using subsidised payphone infrastructure. It has also recently been reported that Telstra has been promoting the use of its mobile phone tower infrastructure as the basis of a proposed network to monitor drone activity. Telstra continues to dominate payments under the Mobile Blackspots Program, which operates in parallel with the TUSO.

Both of these cases are examples of where Telstra benefits from on-going public subsidy programs for a specified service that underwrites infrastructure subsequently used or considered for use to deliver different Telstra retail services in competitive or potentially competitive markets.

These examples suggest communications subsidy programs need to be much more targeted and more carefully designed to avoid them inadvertently distorting retail markets. The removal of the TUSO would immediately remove wasteful duplication and poorly targeted subsidies.

The CCC strongly agrees with the Commission's proposal that any future service subsidy programs should be precisely targeted and delivered through competitive tender where ever possible.

Programs should also seek to isolate the use of subsidised infrastructure to prevent it being used in adjacent or emerging markets.

One of the strengths of the Commission's proposal to use the NBN as the foundation element of a future universal access policy is that it is structurally separated from retail markets.

## Approach to Future Policy

The CCC supports the Commission's findings and recommendations. It submits that any future policies or programs to safeguard vulnerable consumers should be guided by the following principles:

- The CCC strongly supports the recommendation that the TUSO should be phased out as soon as practicable.
- Funding for any future programs to provide accessibility and affordability, should come from general revenue, as proposed by the Commission.

As the Commission notes, it is likely the total cost of any targeted program would be very much smaller than the present TUSO (even within the \$100 million taxpayer contribution to the present TUSO), and would not justify the administrative costs and market distortionary effects of an industry levy program.

- There should be a stocktake of all Federal and State telecommunications programs to remove duplication, ensure they enhance rather than inhibit competition, and to promote consistency and remove waste and duplication.

Various state programs to promote greater access, particularly mobile access, have heavily, if not exclusively, favoured Telstra. The fact that the demand for these programs appears insatiable suggests the underlying approach is flawed. The opportunity to address this failure in the context of replacing the TUSO should not be lost.

- The purpose of policies and programs should be framed around the public benefits of providing universal access and affordability, and should incorporate and leverage off the NBN, which should be recognised as the provider of universal access.

The advent of the NBN is the development that makes unthinkable the continuation of the TUSO. This should be recognised and the maximum public benefit should be leveraged from the substantial taxpayer investment in the NBN by making it the centrepiece of future programs to provide universal communications access.

- The Standard Telephone Service is not relevant as a baseline communications service. The small number of disadvantaged consumers and consumer groups who will require on going government assistance to receive a communications service can be better served by targeted programs. This includes indigenous communities, whose needs are likely better met through specifically targeted programs.
- The TUSO should be withdrawn by stages, by changing the legislative scope of the Standard Telephone Service and automatically applying the changed definition to areas where the NBN has been fully deployed, becoming effective in those locations when final disconnection from legacy network deadline dates occur.

The concerns expressed by the Commission that such a change in legislative scope might be considered heavy handed are unwarranted. The proposed changes should be seen in the context of the decades of over-generous compensation to Telstra and how comprehensively and manifestly the present arrangements fall short of appropriate standards and expectations of public spending.

- The Government should move to finalise future consumer protection arrangements immediately to allow for competitive alternative programs to be developed and introduced in a staged manner, alongside the NBN deployment.

- The TUSO payphones subsidy should be ended immediately. A requirement on Telstra to maintain any payphones presently in operation in locations where there is no mobile coverage could be considered. However, this should be funded internally by Telstra for two reasons. Firstly, the number of payphones in these locations would be relatively small, and, secondly, it would remove any perverse incentives caused by public subsidy that might discourage Telstra from investing in expanding its mobile footprint without separate public subsidy. Further, payphones in locations outside the mobile footprint should not be subsidised if they are used to deploy wi-fi. The use of the payphone network for this purpose could have the effect of foreclosing these markets to competitive wi-fi entrants.

## Contact for Further Information

The CCC would be pleased to assist with any further information the Commission might think helpful.

Please contact:

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