Internet Industry Association

ACN 071 075 575

Opening address to Senate Select Committee on the National Broadband Network (NBN) 20 May 2010

The Internet Industry Association is delighted to accept the invitation to contribute to your Committee hearings today.

Our chief executive, Peter Coroneos, apologises that he could not attend. He is in the US for briefings and exchanges with our opposite numbers in Washington DC until 28 May.

The IIA has been looking forward to realisation of the ubiquitous national broadband network capable of the flexible performance specifications that NBN Co is working to.

There are three issues the IIA is passionate about:

- The fundamental need for Australia to have a fast ubiquitous broadband infrastructure
- The need for appropriate incentives to insure competition in retail services
- The 13 most important recommendations in the NBN implementation study

The fundamental need for Australia to have a fast ubiquitous broadband infrastructure

Almost four years ago, the IIA released Australia's first ever national broadband targets for 2010. The targets were designed to point to where Australia must aim to be so it can remain internationally competitive as an advanced information economy.

http://www.iia.net.au/images/resources/pdf/iia_broadband_targets_2010_%20for_release.pdf

They were aspirational targets for both fixed and mobile internet for the nation. Our intent was to put a stake in the ground by which Australia's progress can be measured against other advanced economies - it would give

policy makers and industry participants an objective assessment of where we need to be by the end of the decade.

In 2006, 2010 seemed far enough away to allow a degree of planning for a coherent, nation building approach to provision Australians with high speed, high capacity internet.

Our focus was not technical but focused on the business and community payoffs. The IIA considered the applications that users would be seeking by 2010 to ensure that we have enough capacity, performance and reach to satisfy these needs.

The boom in user generated broadband intensive content

Our targets anticipated the massive growth in online user-generated video which made YouTube for example one of the top three websites in the world. People are now watching hundreds of millions of videos a day on YouTube and uploading hundreds of thousands of videos daily. Every minute, 24 hours of video is uploaded to YouTube.

It has been estimated that in 2007 YouTube consumed as much bandwidth as the entire Internet in 2000. In March 2008, YouTube's bandwidth costs were estimated at approximately US$1 million a day. Today Alexa ranks YouTube as the third most visited website on the Internet.

YouTube's domination is exceeded only by Facebook and Google. Facebook boasts some eight million account holders in Australia alone.

50% of Facebook's active users log on to Facebook in any given day. The fastest growing demographic is those 35 years old and older. More than two billion photos uploaded to the site each month. More than 14 million videos uploaded each month More than 2 billion pieces of content (web links, news stories, blog posts, notes, photos, etc.) shared each week More than 3 million events created each month More than 45 million active user groups exist on the site

This is a user-driven boom with content being produced on the Internet through a smart user-friendly application design.

Our targets also anticipated broader applications to serve vital health, education, environment and transport challenges.

Over this period 2006-2010, the broadband internet moved beyond a mere discretionary option.

We believe it is now as essential a utility as electricity or water. But how do we compare internationally now?

Earlier this year, Australia's progress in providing national broadband at affordable and fair rates was benchmarked by Harvard University's, Berkman Centre for Internet Society against some 30 other countries. http://cyber.law.harvard.edu/sites/cyber.law.harvard.edu/files/Berkman_Center_Broadband_Final_Report_15Feb2010.pdf

Entitled, *Next Generation Connectivity: A review of broadband Internet transitions and policy from around the world*, the 333 page well-sourced report report ranked various activities comparatively according to quintiles. With Australia (at p.240).It finds we were in -

- the top quintile for 3G penetration– ie the mobile net
- the lowest quintile for price low speeds, combined (ie we are pricier)
- the lowest quintile for price med speeds, combined (ie we are pricier)
- the second quintile for Average advertised speed, OECD –
  - though only 4th quintile for ACTUAL speed tests. ie we are below par in performance.

It comments that for Australia "the fastest-growing broadband access technology is wireless. In the 18 months before June 2009, Australia added 1.7 million new wireless subscribers and 500,000 DSL subscribers. Twenty-seven percent of all broadband subscribers are now wireless."

This was also supported by the ABS' more recent data for the end of 2009.

This found that mobile wireless via a datacard, dongle or USB modem was the fastest growing technology in internet connections, increasing to 2.8 million in December 2009.

Wireless Connectivity as an option

The rise in wireless internet use also reflects the lack of adequate and appropriately priced terrestrial broadband services. It was the one area where true competition has been allowed to flourish in Australia.

This represents a 40% increase from June 2009 and the IIA strongly supports wireless connectivity. But it is no substitute for FFTH/P for scalability. Already the US Smartphone users are wrestling with sluggish performance due to user demand. See http://moconews.net/article/419-mobile-broadband-consumption-is-creating-problems-on-all-sides-of-the-e/

Scalability is the BIG issue here. Since we can't predict the growth, we have to learn from what we've seen already about UGC and video downloads.

The trends are all exponential especially with the growth in machine to machine communication is also on the horizon.

If we wait till the demand's there, we'll be too late and risk massive economic gridlock from failing to act in time. With NBN we have a scalable freeway that will expand to fit any amount of future traffic.

Telstra's chief executive, Mr Thodey reportedly commented at yesterday's (19 May) conference on its operations that the amount of data on its wireless network *doubles every nine months*.

This technology will not scale at the rate required to meet the emerging demand for broadband.

Indeed four years later (2006-2010), 100MB looks barely adequate to be globally competitive. By the time most Australians will access in 2015-2020 it will be plainly inadequate.

We continue to play catch-up in this country against the rest of the developed world which hurts our competitiveness.

All the analysis points to optical fibre as the ONLY future-proof technology that can scale to meet the demand by changed equipment and exponential increases in user and business demands.

We shall get just one shot at getting the technological jump on the region. This is that shot.

The need for appropriate incentives to insure competition in retail services

The IIA was pleased to see that any new broadband roll-out needed to take on the lessons of regulating and ensuring carrier monopolies were properly regulated and served the broader public interest by ensuring a competitive approach in services.

In the light of previous regulatory experiences, the IIA favours a physical separation between wholesale and retail services. It is open to functional separation only as a second best means of achieving a competitive environment for the future.

The Government's proposed regulatory framework

Fifth, we endorse the Government's proposed legislation subject to the following concerns that we have already put to the Government concerning its draft legislation comprising the National Broadband Network Companies Bill 2010 (NBN Companies Bill) and the Telecommunications Legislation Amendment (National Broadband Network Measures – Access Arrangements) Bill 2010 (Access Bill) (together referred to as the regulatory framework).

The IIA believes several aspects of those bills do not adequately implement its earlier stated principles of 7 April 2009.

In particular,

- the regulatory framework should not include discretions that allow the Minister to permit the delivery of retail or content services;
- restrictions on the percentage of private ownership of the NBN Co Limited should be set out in the legislation and not left to be defined later by regulation;
- the draft provisions relating to open access and transparency were inadequate; and
- the criteria on which access seekers depart from the standard form of access agreement or special access undertakings as specified in the Access Bill are too wide.

Departure from principles of open access and non-discrimination should be prevented where it might have a negative impact on retail competition.

(See http://www.iia.net.au/images/resources/pdf/iia-submission-nbn-framework.pdf)

The 13 most important recommendations in the NBN implementation study

Finally we welcome the release of the NBN implementation report.

This suggests the National Broadband Network will cost up to $50 a month for households for a relatively fast broadband service including phone. The network will now service 93 per cent of Australian homes. About half the homes in the country will have access to the National Broadband Network by 2015 with the rollout complete by 2020.

We have few issues to raise with the report other than the IIA considers the 13 recommendations below are an appropriate response to issues concerning competition and transparency raised in the study and accordingly have our support:

R21 NBN annual reporting requirements,

R 23 NBN sets wholesale prices

R 30 USO review

R 31 NBN charter

R 32 NBN allowed operate Layer 2 service

R63 ACCC oversight of NBN and layer 3 telco services

R 64 NBN to operate in publically transparent manner

R 65 NBN to consult widely with service providers

R 66 NBN to publish performance statistics annually

R 67 constrained from offering non-wholesale services

R 68 NBN to be wholesale only operation – **but purged of Minister's right to make exceptions.**

R 69 NBN prevented from investing in retail or content service providers

R 78 Independent review of privatisation and competition environment.

The IIA looks forward to the Committee's final report and its recommendations to advance implementation of our national broadband structure.

About the IIA

The Internet Industry Association is Australia's national Internet industry organisation. Members include telecommunications carriers; content creators and publishers; web developers; ecommerce traders and solutions providers; hardware vendors; systems integrators; insurance underwriters; Internet law firms, ISPs; educational and training institutions; Internet research analysts; and a range of other businesses providing professional and technical support services.

On behalf of its members, the IIA provides policy input to government and advocacy on a range of business and regulatory issues, to promote laws and initiatives which enhance access, equity, reliability and growth of the medium within Australia.

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