



14 July 2017

Committee Secretary
Senate Standing Committee on Environment and Communications
PO Box 6100
Parliament House
Canberra ACT 2600

Dear Committee Secretary,

Vodafone Hutchison Australia (VHA) is pleased to provide this submission to the Senate Standing Committee on Environment and Communications' inquiry into the *Telecommunications Legislation Amendment (Competition and Consumer) Bill 2017* and the *Telecommunications (Regional Broadband Scheme) Charge Bill 2017*.

In relation to the *Telecommunications Legislation Amendment (Competition and Consumer) Bill 2017*, VHA supports the creation of Statutory Infrastructure Provider (SIP) obligations which will ensure that all Australians are able to order a high-speed broadband service regardless of where they live, and that NBN Co. becomes the default SIP as the NBN is rolled out. This is inevitable and simply reflects the reality of NBN Co.'s mandate. VHA acknowledges and supports the proposed changes to the SIP obligations since the exposure draft was released for consultation, including a 25/5 Mbps minimum speed requirement and the requirement for SIP services to support voice services on fixed line and wireless platforms. This is consistent with the recent findings and recommendations of the Productivity Commission's review of the Telecommunications Universal Service Obligation (USO).

VHA **opposes** the proposed introduction of the *Telecommunications (Regional Broadband Scheme) Charge Bill 2017*. We are concerned that a second and even larger version of the current USO scheme is essentially being proposed for introduction, before the future direction of the existing controversial USO arrangements has been resolved.

The RBS would effectively be a new USO of \$410 million a year, rising to \$827 million a year by 2021. This comes at a time when the Productivity Commission's final report, which has recently been tabled by the Government, is damning in its assessment of the USO scheme's lack of transparency and accountability and its anti-competitive impact. VHA is concerned that, like the USO, the RBS lacks transparency and risks becoming an entrenched tax on industry which over time is used for purposes which deviate from the original intention of the scheme. It is concerning for example that the RBS does not have a sunset clause or automatic requirements for fundamental reviews in certain



circumstances, such as privatisation of the NBN. VHA understands the RBS is intended to be in place until at least 2040.

Without industry scrutiny of the modelling behind the charge to be levied under the RBS, it is not possible for stakeholders to consider the arrangement as transparent. While a number of the high level assumptions used in the model used to calculate the estimated loss of the NBN fixed wireless and satellite networks have been released and communicated, the model itself has never been made available for industry consultation. Models of this nature are complex and nuanced and small variations in some of the inputs and assumptions as well as the robustness and structure of the model, can produce large variations in output.

The introduction of the RBS should in theory result in reductions in NBN's wholesale access charges as a result of the consequent broadening of the tax base. This is clearly explained on page 24 of the Regulatory Impact Statement (RIS) released by the Department of Communications and the Arts, including a diagram showing reductions in NBN's wholesale access charges following the introduction of the RBS. VHA is not aware however of any proposal for the reduction of NBN's wholesale charges and the Department has not been able to confirm any such plan in our discussions.

In reality, the incentive for NBN Co. is to proceed with its proposed increases in wholesale prices (from an average of \$44 a month in 2017 to \$52 a month in 2020) given the relatively inelastic demand of NBN pricing and NBN's pressures to increase revenues. Importantly, the RIS notes on page 28 that the Government could require the NBN to drop its prices immediately, commensurate with the amount of the proceeds from the charge it is paid each year under the RBS funding arrangements, however it would be very difficult to monitor this approach. This means that even if the RBS is efficient from the start, which is unable to be verified as the underlying model has not been released for industry scrutiny, it is likely to become inefficient over time. There is little incentive for adjusting the scheme to ensure efficiency over time and little transparency that would allow the industry to understand the efficiency of the scheme over time.

VHA believes there are many potential benefits to reforming the current USO arrangements in combination with the current NBN cross-subsidy arrangements given NBN Co.'s proposed role as the default SIP across Australia. It seems incontrovertible that the current USO should be phased out as the NBN is rolled out given the NBN is increasingly delivering USO services. As Telstra is being compensated for the migration of its copper network to the NBN when it relieves Telstra of its obligation, there simply is no justification for taxpayers and industry to continue subsidising Telstra for the provision its regional copper network. Reforming the USO has the potential to redirect up to \$297 million a year to compensate NBN Co. for the loss-making fixed wireless and satellite networks.

We therefore urge the Government to reconsider its proposed approach to funding the loss-making NBN fixed wireless and satellite networks via the imposition of a new industry charge which can unintentionally introduce barriers to investment and competition, particularly in regional and rural areas. Introducing a second and even larger version of the current USO scheme under the name of



the RBS is plainly a much more inefficient approach than rationalising the existing USO arrangements and using some of those funds to compensate NBN Co.

VHA is happy to discuss any aspect of this submission with the Committee.

Yours faithfully

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