



15th October 2011

Mr Peter Stephens
Secretary
Joint Committee on the National Broadband Network
Department of the House of Representatives
PO Box 6021 Parliament House
Canberra ACT 2600

Dear Mr Stephens,

Thank you inviting me to provide a submission to the Joint Committee on the National Broadband Network.

Key proposition

The Digital Divide in Australia is economic, not geographic.

The solutions to close the Digital Divide are as much about addressing economic needs as they are about developing a technical infrastructure.

NOTE: This paper does not draw any conclusions on the cost benefit tradeoff of implementing the NBN at its current cost projections. Rather, it evaluates whether the NBN will deliver greater inclusion and increased productivity for all Australian households.

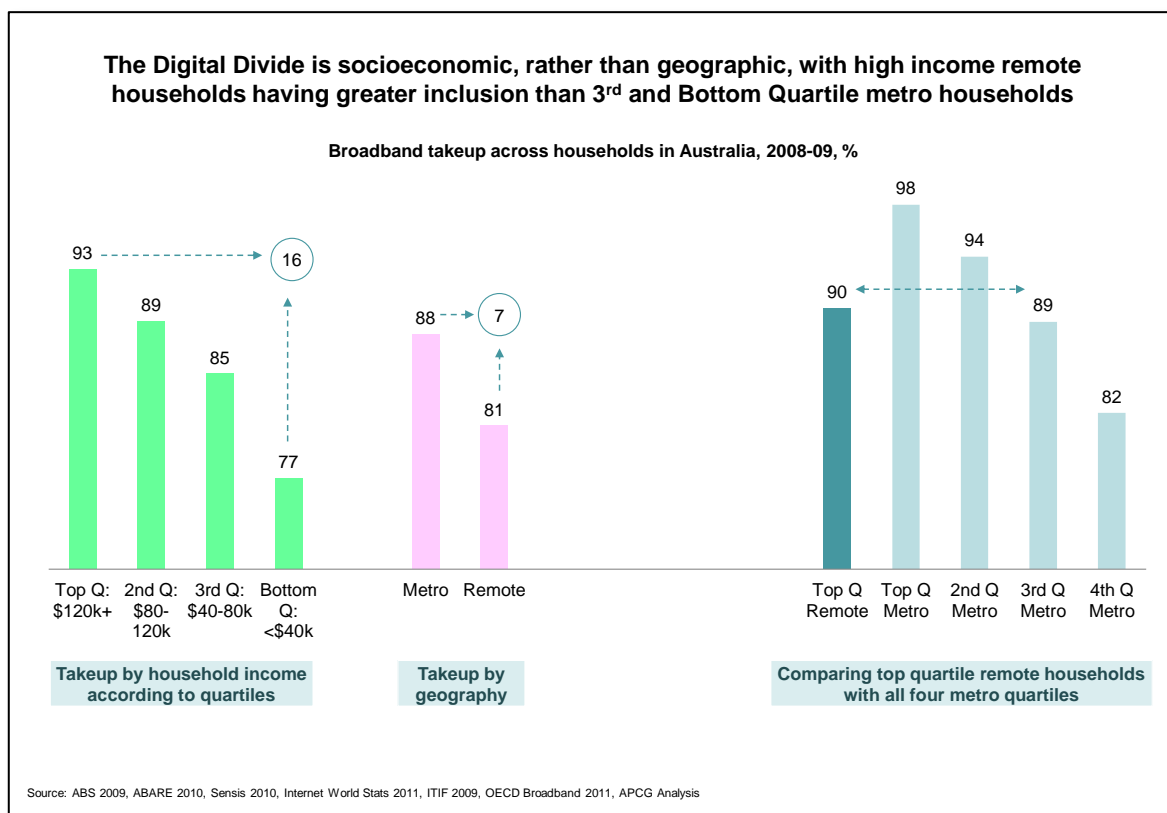
Key conclusion

The NBN will be positive for Top and 2nd Quartile households according to income, generating more productivity and greater economic value.

However, the NBN may not be as positive for 3rd and Bottom Quartile households, as costly pricing plans may limit participation and further marginalise this group.

The Joint Committee on the National Broadband Network may want to consider a program to support inclusion for lower socioeconomic groups.

Overview



Economic versus geographic

If we examine broadband takeup by income bands across Australia, there is a 16 percentage point difference between the Top Quartile at 93% and Bottom Quartile at 77%.

If we examine broadband takeup by geography, there is a 7 percentage point gap between Metro households at 88% and Remote households at 81%.

Income is a greater differentiator in terms of broadband takeup than geography.

Further, the Remote households in the Top Quartile income band show a 90% broadband takeup, which is slightly higher than 3rd Quartile Metro households at 89%, and substantially better than Bottom Quartile Metro households at 82%.

Households with lower broadband takeup are characterised as having lower income, lower education levels, single parents, indigenous background and are recipients of some type of welfare.

Arrival of the NBN

The NBN is likely to be embraced by the Top and 2nd Quartile households:

- They will recognise the productivity benefit, eg. information, time saving, payment capability, inclusion, commerce, etc.
- The cost benefit tradeoff will be attractive for these groups
- Precedent already established with their rapid adoption of Dialup, ADSL, Satellite, Mobile

There will be a greater challenge for the NBN to create benefit for the 3rd and Bottom Quartile households:

- The productivity benefit is not as easily identified, eg. time saving vs. cost of access
- The cost benefit tradeoff is likely to be challenging in difficult economic circumstances
- Precedent already established with their slower adoption of Dialup, ADSL, Satellite, Mobile

So where to from here ?

The NBN will be positive for Top and 2nd Quartile households, generating more productivity and greater economic value.

The NBN may not be as positive for 3rd and Bottom Quartile households, as costly pricing plans may limit participation and further marginalise this group.

Do we need a Basic Broadband Account to support inclusion for lower socioeconomic groups, similar to a range of existing programs, eg.

- Basic Bank Account
- Public Transport Concession Card
- Pharmaceutical Benefits Scheme
- Seniors Card.

Like the above programs, a Basic Broadband Account would be means tested and be designed to promote inclusion for the 3rd and/or Bottom Quartile households. Once these households have experienced the benefit of broadband access, there is an increasing likelihood of them continuing to use this channel for greater productivity.

We have completed some preliminary work on such a proposal, but without a mandate, have yet to take it to conclusion.

Thank you for the opportunity to present to the Committee.

Yours sincerely,

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How wide is the net?

Internet users in big cities and regional areas use the net in many differing ways. Is geographical location the determining factor in access and usage though?

As a country that has always lamented 'the tyranny of distance', using the internet for knowledge, commerce and communication is critical for our future. Before we get too excited about a National Broadband Network however, let's take a step back to examine current internet usage in Australia and where the gaps exist. Internationally, Australia stands in 12th place for households with access to the internet, behind countries such as Korea and Canada. For the record, the US is in 20th place.

USE OF INTERNET ON FARMS

An ABS report on internet usage by people on farms identified the level and type of internet adoption. At a national level, 66 per cent of farms use internet to do business. WA, NT and SA are our strongest adopters, with Western Australia showing the uptake of broadband services at 53 per cent, with dial-up at 19 per cent. Tasmania, Victoria and NSW show the lowest access rates, with the adoption of broadband services on Tasmanian farms at 42 per cent and dialup services at 16 per cent.

Within various agricultural sectors, there is a 10 percentage point differential, with the livestock industry showing an adoption rate of 65 per cent, dairy of 70 per cent, horticulture of 72 per cent and grain of 75 per cent. In terms of productivity increase, an Australian Government report indicated that the contribution of broadband to economic growth would be about 0.5 per cent per annum in Australia and 0.4 per cent per annum in the US (due to the already high level of US take-up).

REGIONAL ACCESS FOR INDIVIDUALS

Internet access for people in regional Australia has improved dramatically in the last few years. Connections

have grown from nine to 53 per cent over five years, and dial-up connections have fallen from 41 to 11 per cent. The numbers are moving in the right direction, but show a population that is less 'connected' than in metro areas.

IT COMES DOWN TO INCOME

The real insight comes from an analysis of broadband take-up in Australia according to income levels. Households in the top quintile of income level have consistently high rates of broadband access irrespective of whether they are metropolitan, regional or rural. In fact, regional and rural households that fall within the top quintile of income groups have higher rates of broadband access than lower-income metropolitan households.

The story is the same in farming: Farms with annual turnovers of less than \$150,000 show internet access rates of 63 per cent, while 85 per cent of farms with annual turnovers of above \$500,000 have internet access. It is worth noting that satellite connections are making their presence felt in regional and rural Australia, with 16 per cent in remote locations being satellite-based.

SUPPLIERS OF BROADBAND

Where there's money, there's a willingness to purchase broadband. Investment in these services by rural households becomes a natural part of existence. Of course, line speed is of major concern to all users. The gains in speed made in going from dial-up to broadband service are of sufficient benefit to most consumers that they are willing to make the investment. Even the option of satellite connection is gaining traction.

It is not a rural-versus-metro picture that represents Australia's take-up of broadband internet services; it is one of higher versus lower income. ☼



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