Australia needs a fundamental re-think of its USO policy in view of the 10 years of experience with competition policy in telecommunications and the need to ensure equity for consumers in national broadband policy. The changes proposed here would provide benefits for consumers, supplies and government. A new USO policy could be financed from the annual interest accrued by the Future Fund, currently estimated to be of the order of $3.8 billion. Such interest returns would be transferred to fund two major components of a new USO policy – continuation of the existing obligations related to voice and pay phones, as well as the provision of capital towards new infrastructure commitments for new high speed broadband services. Australia simply cannot afford NOT to have an imaginative national high speed broadband policy including workable policies to ensure access and affordability for all Australians.

INTRODUCTION

The complexities involved with broadband policy have re-invigorated questions about how Australian governments could ensure that almost all Australians can have access to basic and emerging telecommunications services. Equity practices were much easier in the monopoly days of Telecom, when costly loss making services – especially throughout rural and remote Australia – could be funded from reliable and healthy monopoly profits. But for the period 1991–97, with the introduction of a carrier duopoly of Telecom and Optus, policy makers had to grapple with the issue of how such a consumer rights access policy might operate. And this became more even difficult after July 1997 when the new model of open competition was introduced. What responsibilities might the incumbent carrier, and all of its new competitors, have to provide uneconomic services in a highly competitive cost-cutting market place, and how might such a policy work? The short answer is that all carriers were legally obliged to contribute to a universal service fund for the provision of basic telephone services and pay phones, in proportion to their market share, and those funds were mainly passed to Telstra who carried the prime responsibility for those service obligations.

PRESENT UNIVERSAL SERVICE OBLIGATION (USO) POLICY

Universal Service Obligation (USO), first introduced in 1991, and one of the most contentious policies in Australian telecommunications ever since, has been subjected to several pressures for changes – and is now under review, yet again. In June 2007 the Minister for Communications, Information Technology and the Arts announced a review of the USO and public submissions closed on 1 November 2007 (Australian Government 2007). The established USO policy has served many useful purposes in the context of facilitating wider access and greater affordability of basic services for Australian telecommunications consumers. It has facilitated access to the basic telephone network for most households in Australia, and provided access to payphones for many people who could not afford their own telephone service. Many Australians have been able to benefit from the greater economic and social well being which such ‘connectedness’ brings. However, the well backgrounded departmental USO
Issues document is essentially seeking solutions to several USO policy problems but within an anachronistic USO policy framework. Tinkering within the status quo will not solve the current problems related to USO policy, nor facilitate new consumer and national benefits that depend on access to greater bandwidth that the Plain Old Telephone Service can deliver. This paper argues that Australia now needs a fundamental re-think of its USO policy in view of the 10 years of experience with competition policy in telecommunications and the changes are proposed here to gain wider national benefit for consumers, suppliers and government.

CHANGING THE ‘O’: FROM UNIVERSAL SERVICE OBLIGATION TO UNIVERSAL SERVICE OPPORTUNITY

We need to construct a re-vitalised USO policy in the context of the opportunities associated with new broadband technologies and services. Much of the focus of attention on broadband debates in Australia is about alleged regulatory bottlenecks preventing further major investment, or about appropriate responsibilities for infrastructure investments and choices by government and the private sector, or about the business dynamics of possible network operators, especially Telstra. Yet comparatively little policy debate has occurred about the likely benefits of broadband to consumers and how we can construct agreed policies to ensure that most Australians could share in these new benefits. USO policy has always been underpinned by the desirability to continue Australia’s proud history of assuring that equity principles remain central to telecommunications policy.

Another factor that has hampered these debates is the inhibition among some policy makers in Australia which requires that an unassailable economic case must first precede any substantial investments needed to provide high speed broadband to most Australians. Against this, there is no apparent evidence that those countries that made early such policy commitments to major development in broadband, notably Japan and South Korea, regret their decision. Moreover several new broadband comers, notably the United Kingdom, the Netherlands, France and Norway have recently substantially increased their commitments to broadband in both the private and public sectors. Two related areas need to be developed in a longer piece than is available here. First, an analysis of work mainly done by many economists who support the case for the economic benefit of future investments in high speed broadband. Second, analysis of the range of service benefits that come with good speed broadband, including in the domains of e-health – notably for the ageing population and the need for in-home services, monitoring, medical efficiencies – and in mining, film production and with emerging popular social networks. Also Telstra’s new commissioned report on the climate change amelioration potential of increased use of broadband versus the conventional transport ways of doing things is worthy of further analysis.

Regrettably we continue to flounder on public policy agreement and action related to the major issues for coherent high speed national broadband policy. There is a also a disjunction between what is currently being offered in terms of substantial promises of equity related to future major developments in broadband, and the vacuum when it comes to clear policy mechanisms to achieve those promises. Both major political parties in Australia have given significant commitments that higher speed broadband services will be made available to most Australians in the future. Senator Coonan, Minister for Communications, Information Technology and the Arts
has claimed that ‘fast affordable broadband access’ will become a reality for 99% of Australians by June 2009 through the government’s Australia Connected Program. (Media Release 80/07, 28 June 2007 at www.dcita.gov.au). Similarly Kevin Rudd, Leader of the Opposition, has said that the private sector would be asked to partner a $4.7 billion public investment to roll out the national broadband network to 98% of households within five years’ (Australian Labor Party 2007).

But what policy mechanisms will guarantee this apparent bi-partisan agreement to eventually offer access to broadband to almost all Australians? And how should USO policy be revised in the light of this? It is surely undesirable that ad hoc or ephemeral promises related to broadband in an election year are not ‘set in concrete’ within the policy apparatus of the national government. The tool of the USO has had bi-partisan support for many years now, and could be a good vehicle to enshrine the guaranteed affordable access to broadband for most Australians.

**CURRENT USO FUNDING: UNRELATED TO ACTUAL NEEDS**

Detailed work undertaken by a government agency on USO policy in 1997-98 examined the likely total cost for the widespread provision of telecommunications services. Some estimates put to them were as high as $1.8 billion, but DCITA (based on then Australian Communications Authority study) initially suggested an annual cost estimate for the USO of $548.1 million. Subsequently Senator Richard Alston, then Minister for Communications, rejected that figure and set the subsidy levy at $157 million. Such agreed expenditure has essentially remained in place since then – much to the chagrin of Telstra and other industry players. Telstra recently argued:

> The last time a thorough cost model was done was 1997-98 by the then Australian Communications Authority (ACA), which determined the cost of the USO as $548 million. Even assuming this cost remained constant over the past nine years the total contribution by Telstra to the maintenance of rural services will be close to $489 per annum, with the rest of the industry paying just under $60m per annum.

Telstra adds justifiable major grievances:

> A properly funded USO would at least be a competitively neutral arrangement. However, under current arrangements the USO is grossly under-funded. All telecommunications service providers contribute to the USO fund in proportion to their industry revenue revenues. However the total fund amount is Ministerially determined and is unrelated to actual costs.

(Telstra Corporation 2007)

**A NEW USO POLICY**

The principles and broadly stated expenditures of a revised USO policy are outlined here, and a more detailed financial model could be developed if the major assumptions here were accepted. Existing carrier responsibilities to the current USO policy would remain in the new model, but the opportunities for Australians who seek access to higher speed broadband would pose sub-
stantial new expenditure. *It is proposed that existing costs under the present USO policy related to voice services and payphones would cease to be costs born by the industry carriers and be transferred to the Commonwealth government and paid out of the annual interest of the Future Fund.*

While partisan and ideological differences exist in Australian politics as to the purposes for which returns on the capital Future Fund investments might properly be put, we need to be reminded that the bulk of the funds in the Future Fund were generated from the outstanding historical productivity of the Australian telecommunications industry. The funding base of the Future Fund was overwhelmingly derived for the sale of shares from the full privatisation of Telstra. So why not re-invest some of this national capital towards the re-furbishment of telecommunications where there is clear evidence that new national broadband initiatives will deliver economic success to the nation and particular social benefit to consumers? Or do we as Australians want to see the hard won gains made from the telecommunications industry re-invested in bricks and mortar companies, established banks, or possibly TAB shares? Is that responsible and experienced economic management? Or might we begin to develop national innovation policy to broaden the base of the vulnerable Australian economy?

The Future Fund, including the proceeds from the sale of the last Telstra shares, had reported assets of $60 billion in August 2007. If the annual net return on funds invested was at 7.0%, the interest would be $4.2 billion by August 2008. Such interest returns could be transferred to fund two major components of a new USO policy – continuation of the existing obligations related to voice and pay phones as well as the new commitments to fund broadband services.

**JUSTIFICATION OF THE MODEL AND ITS EXPENDITURE**

This proposed USO model does *not* draw upon existing practices of affordability policy principles in Australian telecommunications where subsidies to consumers are paid out of consolidated government revenue. A notable example of such is the Government Telephone Allowance, which is paid as part of people’s pensions at currently $22 a month from consolidated government revenue. The present estimated cost to government is $150 million per annum (based on estimated $88 pa for 1.7 million households). The USO model proposed here also meets the criticisms of economic rationalists that subsidies for services ought to be justified and clearly identified in government accounts rather operating as vague cross subsidies.

Under this plan the carriers, who universally despise the existing USO industry levy policy, would be released from bearing those levy payments and be funded for contributions towards major community services. Negotiated policy could offer them the abandonment of such regressive charges on them in return for assurances that such prior funding would flow into an imaginative and commendable national broadband roll out policy. Hence the nation would actually be paying for national equity policy.

**USO AS INNOVATION POLICY FOR CONSUMERS**

A new range of economic and social practices is emerging around the Internet and higher speed broadband infrastructure. The energy, investment and creativity associated with the burgeoning growth of broadband in Europe today is remarkable. As one senior manager in Norway, when asked why such there was such extraordinary public and private sector focus on high speed
broadband throughout Scandinavia, said to the author of this paper: what happens to Norway after the oil runs out?

Is there a comparable lesson for Australia given our narrow economic base and over dependence on natural resources? Australia simply cannot afford NOT to have an imaginative national broadband policy with workable policies to ensure access and affordability for all Australians.

Addressing national and urgent issues such as climate change, full employment, innovation and economic growth, our ageing population, education and business sustainability all depend on reasonable access to good speed broadband – and this is the not-to-be missed new universal service opportunity.

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