



COMMONWEALTH OF AUSTRALIA

# Official Committee Hansard

## SENATE

ENVIRONMENT, COMMUNICATIONS, INFORMATION  
TECHNOLOGY AND THE ARTS REFERENCES COMMITTEE

**Reference: Australian telecommunications network**

TUESDAY, 22 APRIL 2003

BALLARAT

BY AUTHORITY OF THE SENATE



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**SENATE**  
**ENVIRONMENT, COMMUNICATIONS, INFORMATION TECHNOLOGY**  
**AND THE ARTS REFERENCES COMMITTEE**

**Tuesday, 22 April 2003**

**Members:** Senator Cherry (*Chair*), Senator Tierney (*Deputy Chair*), Senators Lundy, Mackay, Tchen and Wong

**Substitute members:** Senator Moore to replace Senator Wong for the committee's inquiries into the Australian telecommunications network and the role of libraries as providers of public information in the online environment

**Participating members:** Senators Abetz, Allison, Bolkus, Boswell, Brown, Buckland, George Campbell, Carr, Chapman, Conroy, Coonan, Eggleston, Chris Evans, Faulkner, Ferguson, Ferris, Harradine, Harris, Knowles, Lees, Mason, McGauran, Murphy, Nettle, Payne and Watson

Senator Greig for matters relating to the Information Technology portfolio

Senator Ridgeway for matters relating to the Arts portfolio

Senator Nettle for the committee's inquiry into environmental performance at the Ranger, Jabiluka, Beverley and Honeymoon uranium operations

Senator Wong for the committee's inquiry into the Australian telecommunications network

**Senators in attendance:** Senators Cherry, Lundy, Moore, Tchen and Tierney

**Terms of reference for the inquiry:**

To inquire into and report on:

- (a) the capacity of the Australian telecommunications network, including the public switched telephone network, to deliver adequate services to all Australians, particularly in rural and regional areas;
- (b) the capacity of the Australian telecommunications network, including the public switched telephone network, to provide all Australians with reasonable, comparable and equitable access to broadband services;
- (c) current investment patterns and future investment requirements to achieve adequacy of services in the Australian telecommunications network;
- (d) regulatory or other measures which might be required to bring the Australian telecommunications network up to an adequate level to ensure that all Australians may obtain access to adequate telecommunications services; and
- (e) any other matters, including international comparisons, which are deemed relevant to these issues by the Committee.

**WITNESSES**

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**Committee met at 11.55 a.m.**

**BAIRD, Mrs Sari, Legal Counsel/Company Secretary, Neighborhood Cable Pty Ltd**

**FELDMAN, Mr Jeff, Commercial Manager, Neighborhood Cable Pty Ltd**

**GROSSMAN, Mr Fred, Chief Operating Officer, Neighborhood Cable Pty Ltd**

**CHAIR**—I declare open this public hearing of the Senate Environment, Communications, Information Technology and the Arts References Committee and welcome everybody here today. Let me state at the outset that we are very pleased to be in Ballarat, as it will give us the opportunity to hear first-hand the evidence of people living in the region firstly in relation to our inquiry into the Australian telecommunications network and later in relation to our inquiry into the role of libraries in the online environment.

I welcome our first witnesses. Thanks for giving us your time today; it is much appreciated. As you have been told, the committee prefers all evidence to be given in public, but should you wish to give your evidence, part of your evidence or your answers in private you may ask to do so and we will consider that request. You are reminded that all evidence given to the committee is protected by parliamentary privilege. I also inform you that the giving of false or misleading evidence to the committee may constitute a contempt of the Senate. I invite you to commence your presentation.

**Mr Grossman**—We have made a submission for our complete presentation to be made in camera for reasons outlined earlier. I ask the committee to consider that.

**CHAIR**—The committee has considered your request and has resolved to move in camera.

*Evidence was then taken in camera, but later resumed in public—*

**Senator LUNDY**—I would like to refer to the sort of service that you provide. You referred to the big fat pipe that comes to the edge of the city. Can you just go through that again, particularly in relation to what Neighborhood Cable has to offer in taking broadband to people's homes, as opposed to where a lot of the other investment is occurring in those intercity links?

**Mr Grossman**—Our model can be seen very much as a spider's web over the local city. We connect those spider webs using large pipes. The large pipe is good for us because, if we get a customer, we can float it through our spider web and our network and we contract via those large pipes. Many of those large pipe owners want to provide services directly. There may be a very large business based in Ballarat—McCain or Mars, for example—and those outside providers may have come to the gates of the city and wish to provide them with very large, thick pipes. They cannot because they do not have the rights to come into a city and provide the last mile. That last mile can only be provided by me, because I am in this city, or by Telstra who get to all those last miles.

**Senator LUNDY**—So the only other ubiquitous provider of that spider web that can get the services to people's homes is Telstra?

**Mr Grossman**—Correct. At the moment those large providers have to reach a wholesale agreement with Telstra to connect in.

**Senator LUNDY**—Because Telstra owns the pipe coming into the town as well?

**Mr Grossman**—They own the pipe going into the house. They have their own spider web.

**Senator LUNDY**—When a company like Neighborhood Cable wants to invest in a new regional centre, what sort of barrier to that competition does Telstra present to your company?

**Mr Grossman**—The standard competitive barrier that is presented by dealing with a company many times larger than your own that has positive cash flows and retained earnings—we are working with negative cash flow.

**Senator LUNDY**—Are there any examples where you or others have alleged that Telstra has engaged in predatory pricing in order to keep others out of a certain market?

**Mr Grossman**—Not that I can recall.

**Senator LUNDY**—Allan Fels gave a speech two months ago in which he observed that competition in Australia was getting worse, not better. Do you agree with that? As a competitor in the regional telecommunications market, is the environment for you getting better or worse?

**Mr Grossman**—The environment for us is improving because of the large amount of back haul capacity and the large pipes that people have been investing in. We are now benefiting from all those huge investments that went in when the money was freely available, because there are many companies trying to sell us services on those.

**Senator LUNDY**—So you are getting wholesale competition?

**Mr Grossman**—We see good wholesale competition. I do not see that much competition in the retail market.

**Senator LUNDY**—So the key for you is in being able to build your infrastructure in those new markets?

**Mr Grossman**—Correct.

**Senator LUNDY**—With the demand for broadband growing, how competitive are you when it comes to offering broadband in those retail markets?

**Mr Grossman**—In most instances our broadband offerings for the residents who are passed by our network are around 10 per cent cheaper than those available for a comparable service in the city.

**Mr Feldman**—I can give a little bit more detail on that. There are three basic components to any broadband offering available in the market today: a connection fee, an ongoing monthly fee

and a termination fee. On each one of those fees, Neighborhood Cable's prices are significantly lower than any of its competitors.

**Senator MOORE**—If you attract your customers with a cheaper fee, have you done research on retaining them after their initial contract expires?

**Mr Grossman**—The retention on our broadband product is extremely high, and the churn on our cable TV is level with the industry norm. I think that is related to the differences in those two types of products. One is becoming a lot more useful and the other is a true luxury item.

**Senator LUNDY**—I am also aware that you did provide community television stations as part of this service. Can you briefly explain what those services are?

**Mr Grossman**—In each of the markets we are in, we provide one of the cable TV channels as an empty channel for the community to set up a community television network. Our support for that is via the provision of the technical knowledge and the link to the home, so that anybody who subscribes to our cable TV service also gets channel 51, Ballarat Community Cable TV. Ballarat Community Cable TV is alive and well. It broadcasts for about four hours a day and it is made up of a group of locals and businesses that broadcast anything they wish. They are hoping to grow that to eight hours a day—they are showing the local basketball games. We have no control over the content. We provide that as a service and the communities are thrilled with it.

**CHAIR**—I would like to thank the witnesses for their evidence today. On behalf of the committee, I request that you review the *Hansard* for the in camera hearing to see whether there are any aspects that you would be happy to have put in the public record. Thank you very much for your evidence.

**Mr Grossman**—Thank you very much for the opportunity to speak here today.

[12.55 p.m.]

**CAIRNS, Mr Andrew James, Chief Executive Officer, Bendigo Community Telco Ltd**

**CHAIR**—Welcome, Mr Cairns. Thank you for making the trip from Bendigo to be with us today. It is much appreciated. The committee prefers all evidence to be given in public, but should you at any stage wish to give your evidence, part of your evidence or answers to specific questions in private, you may ask to do so and we will consider your request. You are reminded that the evidence given to the committee is protected by parliamentary privilege. I also inform you that the giving of false or misleading evidence to the committee may constitute a contempt of the Senate. I invite you to make an opening statement before we move to questions.

**Mr Cairns**—I will give a little bit of an overview of the community telco model and also Bendigo Community Telco. We are a public, non-listed, limited company that was established in mid-2000 specifically to address the telecommunications needs and requirements, for now and for the future, for the central Victorian region. We are a commercially operated but community focused company that looks to engage and enhance the community as a whole and stretch the minds of the community to what can be achieved by aggregating their telecommunications needs and services.

We are not a carrier; we are a community enhancement and a prosperity management entity that galvanises the whole community, including all the silos which you find in the general community, such as retail, manufacturing, local government, education, health et cetera. We transcend all those silos to get consensus for the delivery of services and solutions for the region. We challenge the community to aggregate all of their resources. With any particular community, when you do a capacity count, there are considerable capital resources and services which can be used to help get solutions into areas. We do that to make it more attractive for carriers to invest in our region. It is kind of changing the strategic plans of carriers to meet our timetables rather than their timetables. If anything, in today's global economy we are acting somewhat tribally. We are taking the local resources and the local needs and utilising them to meet the efficiencies that we require in our region.

We are commercially funded through local seed capital. We are locally operated and owned. We deliver a brand value equation in the telecommunications industry which I think challenges anyone. We have an emotional and an economic brand equation, which is very difficult for other people to address. We use demand side economics to influence the strategic plans of carriers, as I have said, to meet our timetables. But, more importantly, we come from a user point of view rather than from a supplier point of view. So we get the community to decide what they want and then facilitate a solution to meet their needs. By doing that en masse we make it attractive for the carriers, with their ROI, to start to bring solutions to the regions today. I can give you a number of examples later on.

More importantly, we live with our shareholders and our customers, both good and bad, and we interact with them daily, whether we are doing commerce or just walking down the street. We offer a full range of telecommunications services which people are probably unaware of: voice, data, Internet, mobile phones, broadband, two-way satellite services, e-commerce, m-commerce, mobile telephony and last mile connectivity. Very soon we will be offering data

recovery and resilience planning services, with a six-terabyte data centre to be built in Bendigo. We have also redefined the competitive price to market in the central Victorian region. Since we have been in operation we have opened Pandora's box. After probably 10 years of competition, when there was not much movement in pricing, we have now redefined the market to somewhere between 20 per cent to 30 per cent lower in the past two years.

Also we have accelerated the delivery of services into the region, not only through ourselves but through our competitors, by the fact that we are there. Carriers deem it necessary to bring new infrastructure, technologies and services to remain competitive in the market against our economic and emotional brand. We own our own billing, finance, operating and customer management systems, which enable us to differentiate our services from the solutions that are offered to the market by other carriers. We virtually buy services wholesale from most of the carriers—at least the top seven or eight. So our relationships and our carrier regulatory environment are quite extensive.

I would like to conclude by saying that, as we see it, two things help. Firstly, we educate and transition the market to the benefits of new solutions rather than just say, 'Build, and hope they come,' or throwing a commodity product at the market and say, 'Here it is; have it at a lower price.' We actually sit with the businesses. We sit with the people and them tell them how they can get an operational or efficiency improvement to their environment, so that they can compete in the open global economy, and how they can actually make a 16-year-old kid have a future in the town rather than think of leaving that town.

We are more than a telco; we are a vehicle for community aggregation, cash flow and prosperity management. We actually galvanise the thinking as one. We have done that on a number of occasions. We did that when we pulled together community planning for a business continuity centre, whereby we were able to get pledges for use by a number of organisations that commercially underwrote that particular project. We are not a charity; we are a sustainable business model that has been commercially funded, and we are a very successful one. We are looking at replicating this throughout Australia.

**CHAIR**—From an infrastructure point of view, what does Bendigo need to have a full opportunity to develop broadband access and telecommunications generally?

**Mr Cairns**—There is sufficient trunk infrastructure into Bendigo. It is really about options for the last mile connectivity. Bendigo's infrastructure is a little bit of a honeycomb; it is higgledy-piggledy in its design. So there is not one killer solution for it. It is a mixture of DSL, cable, satellite and wireless. Even in the middle of Bendigo there are shadow areas that need a diverse range of solutions to meet them. So we are looking at last mile connectivity to be able to provide the applications that will underwrite the uptake by businesses and residences.

**CHAIR**—Is your company looking at providing that or will it be seeking other companies to provide it?

**Mr Cairns**—We seek other companies to provide that. We are very good at galvanising the community, enabling it to do a resource audit, and giving it a vehicle and the necessary tools to run a telco—that is, billing, CRM, business rules, industry knowledge et cetera. We are good at working with carriers that are used to providing 24 by seven services or working in that

extensive capital environment and making it more attractive for them by being able to give them a prequalified customer base from day one.

**Senator TIERNEY**—Could you describe what you can deliver for the home under your current system?

**Mr Cairns**—At this point in time we are providing ISP services, mobile telephony and long-distance carriage on outbound calls for the residential market. Our model has been predicated on the fact that you start by amassing a major buying base within the region. That might be the top 15 businesses or the top 15 users. Then you filter down to the next 100, then to the next 500, and then you get to the residential market. We are undertaking all our planning at the moment to get into the residential market in the middle of this year for all of the services I have previously described. Today, we are predominantly focused on the business arena.

**Senator TIERNEY**—You seem to be building a model that has tailor-made solutions for particular businesses. Can you tell us how you can do that profitably? That seems to be a very labour-intensive approach.

**Mr Cairns**—Because, as I said, we are able to galvanise the community, I have the ability to facilitate the gathering of the key people within that particular community, whether they be the chief information officer, the chief telecommunications officer or whoever within the large organisations. From them we are able to strategise the needs for Bendigo. The larger businesses and users in town underwrite the commercial model. If we look at the continuity centre, five businesses in Bendigo are planning resilience, so we are undertaking resilience planning and off-site data storage requirements. We got those five businesses together and realised what their capacity was and what their demands and needs were for the short term and long term. We modelled those and then approached various computer manufacturers to come up with solutions. On a commercial basis, we got the access to the infrastructure—the computer hardware, mainframe, CPU power et cetera—and modelled that against the commercial rates we could sell it to, and the business model was a sustainable one over the long term.

Those five businesses underwrote the plan. In about 30 days time we will have the ability to offer over the Internet storage facilities for the residential market. People at home will be able to store their vital information so that, when they are corrupted by viruses or whatever, they can re-access and rebuild remotely.

**Senator TIERNEY**—How long ago did you start in Bendigo?

**Mr Cairns**—We started in concept in July 2000 and we started operationally in October 2000.

**Senator TIERNEY**—Are there any new centres you have moved to?

**Mr Cairns**—Yes, we have started with Ipswich as well.

**Senator TIERNEY**—Ipswich is a pretty advanced city in this sort of area. You have mentioned that you can replicate this across Australia. Obviously, you are starting with bigger centres like Bendigo and Ipswich. How far down do you think this model is viable in terms of the size of communities?

**Mr Cairns**—The community defines itself—it depends how you wish to provide the services to that community. If you want to be fully operational and functional as a community telco whereby you have your own billing systems, CRM et cetera, you are probably looking at, say, 30 to 50 communities across Australia like the Ballarats and the Bendigos—that sort of size. We have a model which we are developing at the moment that will enable us to profitably give smaller communities—where you might have 1,000 to 10,000 people—the options to run their own telco but on a different platform. We are still formulating the modelling behind that, but it will be able to get down to 1,000 people.

**Senator TIERNEY**—When do you think you will have that model ready?

**Mr Cairns**—Probably about the middle of this year. We are a long way down the track.

**Senator TIERNEY**—Good. You have gone from Bendigo to Ipswich. That was a hell of a jump—you have jumped the whole of New South Wales. How many other organisations are out there, like you, picking a centre and developing solutions for those centres?

**Mr Cairns**—Sorry, I do not quite understand the question?

**Senator TIERNEY**—How many competitors, in other words, are doing what you are doing?

**Mr Cairns**—In a community model?

**Senator TIERNEY**—Doing a community model somewhere in Australia. We are trying to get some sense of the size of what is happening.

**Mr Cairns**—There have been a lot of studies into that. If you look at the New Connections report, I think there were 20-odd community telco models put forward in that particular report. I am not quite sure of the status of all of them at this particular stage. I would say that our model is different from others in that we are commercially funded from the local community. That is a big difference, because we have not gone out and built an organisation based on any government funding whatsoever—NTN, CAN, BARN funding et cetera.

**Senator TIERNEY**—There is no overseas money or venture capital money?

**Mr Cairns**—No, there is no venture capital money; it is all out of the local community. So your buy-in and the challenge to the community is that they must want to do it; we are not going to do it for them. We will give them the tools to enable them to actually operate it, but it is 100 per cent owned by the local community and it is 100 per cent operated by the local people. We deliberately state in the constitution of the organisation that it is for broad community ownership. It is not Andrew Cairns's community telco; it is Bendigo's community telco.

**Senator TIERNEY**—So you are suggesting a model that will work Australia wide right down to communities of 1,000 when you finish the other model—you just need to harness the resources that exist in the community and synergise all of that to create these sorts of outcomes. Is that what you are saying?

**Mr Cairns**—I am not saying that that is for everyone, but at this particular point in time I would say that you have sufficient resources within any community—be it capital, human,

leadership, social, whatever—to be able to amass enough aggregation to use as a leverage tool to increase the capacity of your buying base, so that you can actually introduce a different path for competition in your community.

The first step, though, is looking at price rationalisation between a regional area and a metropolitan area. The next step is to then get access to the infrastructure to run solutions. The community has to be on a case-by-case basis. I will explain what we have done in Bendigo. We have leveraged off relationships. We have brought a prequalified spend to the table to make it suitable for a carrier to put infrastructure in the town and carriers have done that, so they have actually built a microwave CAN solution or optical fibre in the town to lower their operating costs and provide services to me.

**Senator TIERNEY**—We have heard this morning from another group who have got a very different model relying on overseas capital. They say that, if you want to roll this out further in the long term, because it takes so long to get a return you actually need government subsidy involved as well. You seem to be saying that you actually do not need that, that you can do without government subsidy.

**Mr Cairns**—I would differentiate. Firstly, I do not build infrastructure. You need a considerable amount of cash to build infrastructure. My model is not to do that. Mine is a user based demand-side feeding into existing infrastructure, leveraging off infrastructure which can be better utilised or making it a commercially viable model for a carrier to put infrastructure into my town or into my region. So I do not own any infrastructure. I am not capital dependent, I am operation dependent.

Secondly, we facilitate and work with the carriers. We sit down very much open book, whether it is a number of the relationships which we have, and explain what we can bring to the table, what they need to bring to the table and what returns they are after. Sometimes it just does not make sense. There are some areas which it is not commercially viable to fund. For those particular areas even my model does not fund it. So at that particular stage access to government funding or access to a committed spend by the government in those areas locally could make a difference, but it would have to be considered on a case-by-case basis.

**Senator TCHEN**—You are not actually a telco; you are a serveco.

**Mr Cairns**—As I said, we are not a telecommunications carrier.

**Senator TIERNEY**—With your model how do you bring about something to the home when no-one has rolled the cable down past those houses? How do you bring that about?

**Mr Cairns**—Then you start to resell the available services. Telstra is already in the home. You provide a solution which enables you to engage the customer using existing infrastructure. Telstra has last mile connectivity in all premises within Australia, so you leverage off that until you can build up enough customer base, when it is then worth while to actually transfer that to a different operating platform.

**Senator TIERNEY**—But that would mean initially in the short term that the range of services under your model is just not there for the customer, is it, because of the limits of the technology that is down the street?

**Mr Cairns**—It is a growing model. When we first started in Bendigo we just resold voice services, and over a two-year period from April 2001 to where we are today we have now increased our product range to include a continuity centre. That has been worked out over time. What we give is a means for the community to operate as a telco with billing systems, CRMs—all the back office support systems, which take a lot of time and effort to actually set up and have integration with the carriers that enables you to get a product to the market. But the community may select to provide only certain products to start off with and transition over time. What they are doing is addressing some of the capital flow, so the money stays local and the profit stays local. They may even be able to reinvest the profit back into their own infrastructure or do a build-own-operate style transitional process with a carrier.

**Senator LUNDY**—I am very interested in your ability to access existing infrastructure, particularly with broadband services. We have heard about some of the ageing infrastructure within Telstra exchanges and how limiting that is for broadband infrastructure, for example the DSL products, but also how that relates to new Telstra infrastructure and in particular the use of remote integrated multiplexers, or RIMs, in newly developed areas. How do you deal with that challenge? Just by doing an exchange audit, you know what percentage—

**Mr Cairns**—Do you mean what is activated and what is not activated?

**Senator LUNDY**—Yes, but not only what is activated. There is a finite point with Telstra's local loop about how many people are ever physically able to get broadband. How do you factor that in to what you are trying to achieve?

**Mr Cairns**—I will use the Bendigo example. Bendigo has a number of exchanges; there are two primary exchanges, which cover the majority of the market, in the middle of the town. Currently, we have a reselling strategy. We go out and resell broadband services. That enables us to connect customers until we get to a sufficient point where it is going to be viable for us to then put our own infrastructure over the top of that.

**Senator LUNDY**—When you say you put your own infrastructure over the top of that, what do you mean?

**Mr Cairns**—Sorry, I will rephrase that. It gets to a size where I have a sufficient customer base to be able to go and negotiate with a carrier to maybe provide an alternative service which can get a broader coverage.

**Senator LUNDY**—Like wireless?

**Mr Cairns**—Like a wireless solution; that is exactly right. We have made some strategic purchases of infrastructure in the Bendigo market. We own a 90-metre tower in the middle of town, which oversees about 87 per cent of every home and business in Bendigo by line of sight. When we build up our customer base to a sufficient size, we will look at facilitating a solution with a carrier to have a wireless connectivity. That will enable us to leverage a wider solution—rather than just for the businesses which are connected.

**Senator LUNDY**—So, in other words, your business model recognises the limitations in Telstra's infrastructure?

**Mr Cairns**—Correct.

**Senator LUNDY**—Have you done an audit of Telstra's infrastructure in your town with respect to its broadband capability?

**Mr Cairns**—We have done our own investigation, yes.

**Senator LUNDY**—What has that found? What percentage of people are able to get broadband?

**Mr Cairns**—I do not have the exact figures with me, but I can provide them to the committee in written form. I just do not know them off the top of my head.

**Senator LUNDY**—That would be useful. One of the challenges for this committee has been getting information from Telstra about the status of their exchanges, the technology exchange used and the impact on the availability of broadband. Can I ask you if there are many RIMs used in Bendigo?

**Mr Cairns**—Yes, there are.

**Senator LUNDY**—What proportion of residences?

**Mr Cairns**—Again, I can get that information. I understand what sort of information you desire, and I will get that information to you.

**Senator LUNDY**—In terms of the work you do with the community, what sort of feedback do you get from customers who find themselves on a RIM or another type of pair gain and who are not able to get broadband?

**Mr Cairns**—Complete frustration.

**Senator LUNDY**—Is that a big problem or a growing problem?

**Mr Cairns**—Yes, it is, because people do not consider Bendigo to be regional. It is provincial. They expect to have the same services. It is the same distance to drive from the CBD of Bendigo to the CBD of Melbourne as it is to drive from Ringwood into the city. From our point of view, people want to tele-work. They want to be in a situation where they can have their services and lifestyles, and they do not want to be disadvantaged by where they live—nor should they be. I live 17 kilometres from the middle of town, and I think the fastest speed I can get my modem to is almost under the service obligation level.

**Senator LUNDY**—Which exchange are you connected to?

**Mr Cairns**—Axe Creek.

**Senator LUNDY**—We should be able to tell you what the exchange limitations are.

**Mr Cairns**—I have two-way satellite services. That is my solution for broadband connectivity.

**Senator LUNDY**—There you go! Basically, your model reflects the fact that Telstra's infrastructure is inadequate for the provision of broadband and you have effectively a contingency plan when market demand grows to a certain point to invest in, secure or leverage alternative infrastructure.

**Mr Cairns**—Yes. It is probably fair to say that the model is about giving the people who have had enough the opportunity to govern themselves and to set their own timetable rather than wait for someone else to set the timetable for them. If this rollout of the incumbent's DSL strategy does not cover a particular exchange then the challenge is on the community to say, 'If I bring 50 customers to that exchange, will you activate it?' The next issue is whether their cable or the copper is suitable to go from the exchange to the home or from the exchange to the business. That is a different scenario. In a lot of cases it is, and in a lot of cases it is not. If it is not, the model can take the next step and say, 'Firstly, what is the number then needed to put in an alternative or to have a relationship with an alternative carrier—be it cable, wireless or whatever—to have a solution that enables me to get broadband into those homes. It might be 80211, licensed spectrum, extended DSL or cable. It could be a satellite with a spread spectrum node hanging off that as well, so you could do that.'

**Senator LUNDY**—How many, if any, dealings do you have with the ACCC?

**Mr Cairns**—None at this stage.

**Senator LUNDY**—Why is that?

**Mr Cairns**—We have had no need to at this stage.

**Senator LUNDY**—Finally, on the *raison d'être* of Bendigo Community Telco, is it fair to say that the business model was born out of a high level of dissatisfaction with competition in the telecommunications market and frustration with broadband? Is that a big part of it now?

**Mr Cairns**—It was definitely born out of a frustration. It was born out of a dissatisfaction with the delivery that competition had provided in the Bendigo region from a pricing point of view and also from a solutions point of view. The community decided to take control of the situation and have a user demand model driving the strategic plans of carriers, rather than a supplier telling us we can have it any colour we want so long as it is black. We decided that black is not the colour we wanted. We wanted to be in a position whereby we could get access to broadband infrastructure to run the facilities. We have a university there that has PhD students and courses. If we have them working at home, they can undertake research by companies that in turn might add to the investment attractiveness of Bendigo. We can get them to Bendigo, which then will employ people, which then keeps a 16-year-old kid in Bendigo.

**Senator LUNDY**—How closely related do you think the future economic development prospects of the Bendigo region are to the availability of broadband?

**Mr Cairns**—Tremendously. You look at all the reports—such as the Estens report—and they all say that commercial viability and sustainability in regional centres is linked to the access to suitable infrastructure for all.

**Senator LUNDY**—What is the biggest threat to Bendigo Community Telco's survival?

**Mr Cairns**—A loss of will and a loss of that desire for the community to govern itself. The telco, when you look at our acquisition growth and our churn, our growth has been dramatic—unbelievable—and our churn is far less than industry standards, because people are making an emotional and economic decision when they buy. They also have ownership in the company and, as shareholders, they are able to talk directly to the CEO of their telephone company. I do not know whether they can talk to the CEO of the national carriers, but they can do that with their telephone company.

**Senator LUNDY**—I think plenty of people try.

**Mr Cairns**—That may be the case. If the community decides that they do not have the desire to continue with the long-term sustainability of their telephone company, that is the issue. That is the biggest risk. At this stage, if you look at what has been happening in the community banking arena, when you have a number of communities which have amassed their financial spend, they have been operating for five years and the will is still there. I do not expect it to abate.

**CHAIR**—Would the Ipswich Community Telco have a similar level of development to the Bendigo one at this point?

**Mr Cairns**—It is about 12 months behind. My understanding is that it is tracking very similar to where Bendigo was 12 months ago, so it is very successful.

**Senator TCHEN**—Mr Cairns, your submission really turned this committee's reference upside down, because we are supposed to be looking at the adequacy of the network and you come along and tell us that you have a new way of using the existing network and drawing it out. That is quite a different direction. The only question in my mind—which I think Senator Tierney touched on—is whether the model you have has broad application across the nation. Bendigo and Ipswich—the other location where you have developed your model—are fairly special cases because they do have infrastructure in place already and there is dissatisfaction about the services provided from it, so you can harness that dissatisfaction and use it as a marketing tool to actually draw the supply in. Am I right?

**Mr Cairns**—Yes.

**Senator TCHEN**—What about if you were starting with a community which does not have the service; is the model applicable?

**Mr Cairns**—I think it is. There is a process which you go through. Firstly, you are looking for an understanding in the community that there is a need to change the current situation. You then amass, audit and engage all the resources of that particular community, form a steering committee to see what the issues are, get the community to pledge usage to the new organisation and then put money on the table in the form of commercial seed funding to

underwrite the entity which you are setting up. During that whole process, if you have enough potential usage then there is no reason why you cannot then influence a carrier to provide infrastructure into your region. Carriers will not build today and hope that it will come; they will build if there is an underpinned model. So if you commit to three years spend or two years or one year—whatever the model actually depicts you have to do—as a community then it makes commercial sense for the carriers to put that infrastructure out.

**Senator TCHEN**—The first question that I was going to ask you is how do you draw out a community interest? I suppose you have partly answered that. How do you plant the seeds? Do you stand on a high place and say, ‘You can do it’?

**Mr Cairns**—We have not proactively marketed it.

**Senator TCHEN**—How did you come into being?

**Mr Cairns**—Fourteen businesses got together in Bendigo and decided that they had had enough.

**Senator TCHEN**—How did the 14 get together?

**Mr Cairns**—The city council called a meeting to create a forum for people to consider telecommunications requirements moving forward. From that, there was a lot of debate on how to move forward. Then the 14 companies got together, pooled their telecommunications spend, formed a company and went out to tender to see if they could get better pricing. They achieved, depending on the business, somewhere between a five and 30 per cent saving in their annual telecommunications spend. Within six months that redefined the telecommunications pricing in the Bendigo market. It just lowered everyone down, so whether you were a member of Bendigo telco or not, the competitors were in the marketplace lowering their pricing. But it had to be more than just a price equation; it had to be able to add service value adds so that is when we went from being just a buying group to implementing our own billing system and CRMs, so we could manage the customer experience.

Then we went to test the commercial viability of the model not only for the community but also to see whether carriers made some money out of the process as well because this is looking for commercial investment on both sides, and the answer was that they could. We also looked to see whether the community benefited out of it, which they did, with lower pricing and more services. Finally, we looked at whether the operating company could actually make money and it could, too, so the commercial viability of the model was what we have been proving over the last two years; hence we are in the process now of replicating the model into a format so that we can roll it out across Australia for communities that wish to have it. It has to come from within the community.

**Senator TCHEN**—So you need someone in the community to start the discussion—

**Mr Cairns**—That is correct.

**Senator TCHEN**—then you need someone with expertise to actually develop it; then you need someone with the management skills to push it further.

**Mr Cairns**—We have a very set structure which we follow. We give the tools to the community, so what we are really doing is enabling them to galvanise their desire and their thinking through the process.

**Senator TCHEN**—You referred to community banking. How much is your model based on or inspired by the Bendigo Bank?

**Mr Cairns**—A considerable amount. The community bank model was one which empowered communities to address their financial capital flows. It is through that same engagement and empowerment that we are assisting communities to address their telecommunications requirements.

**Senator TCHEN**—Thank you. I am not sure how we can translate that particular experience to a national model, but it is interesting.

**Senator MOORE**—Mr Cairns, what role does local government play in the process?

**Mr Cairns**—Local government have been considerable supporters of what we have done. They are not shareholders in the organisation but they have committed their telecommunications spend as one of the original 14 companies.

**Senator MOORE**—So they are not a formal shareholder but part of the collective.

**Mr Cairns**—That is correct. They are not founding shareholders but they are definitely one of the collective entities which pledge their demand. They have assisted by being able to channel carriers or suppliers that want to provide services to the community through Bendigo Community Telco, with an option to come to Bendigo Community Telco, so that we can be in a position to see if we can offer that en masse across markets, just as they have done with other carriers. They are very supportive of our endeavours at the state and federal levels.

**Senator MOORE**—The model seems to be based very much on strong local government. Bendigo and Ipswich are both very strong in terms of their community links with local government.

**Mr Cairns**—If I have given that impression, I need to broaden it. It is not just a local government. It is actually getting the business buy-in as well. It is a commercial model. The commercial funding is given to a commercial entity to be run commercially with a community mind. To sustain the business model, you have to run it as a real business. You have to be in a position to ensure that the decisions which are made are commercially sound and that they are commercially viable over a long period. The seed capital starts the business and your operating profits sustain the business. Those profits are, through the constitution, put back into the community or to the shareholders as it is deemed.

**Senator MOORE**—So the shareholders are people who use the service.

**Mr Cairns**—Shareholders are the people who use the service. In my case in Bendigo, that is about 90 per cent of them—there are 10 per cent who do not actually use the service.

**Senator MOORE**—They just want to support the service.

**Mr Cairns**—That is correct.

**Senator MOORE**—Is it expensive to be a shareholder? Is it a large commitment financially?

**Mr Cairns**—No, it is not. At this stage it is a public non-listed company. The board is in the process of looking at the structure of the company and moving forward, but at this stage we have a shareholding listing under 50.

**Senator MOORE**—You have used the example, on a couple of occasions and in the media releases, about the 16-year-old person who stays in the community. Has that happened?

**Mr Cairns**—I have employed a 17-year-old girl who has come on as a customer service rep and who was going to leave the region. The person who runs my billing system is a 24-year-old person who had a job offer to go to Melbourne. He has decided to stay. Twenty years ago I completed an electrical engineering degree at the then Bendigo College of Advanced Education. I had no choice. I had to leave the area to get a job. There were no engineering roles for their course, which I actually completed. I want the option for my 10- and 12-year-old sons to, if they want, live in Harcourt North, where I live, on 44 acres overlooking 20,000 square miles—with a broadband connection so that they can videoconference with their employer in Germany, get paid in deutschmark, and clear it through the local community bank. That would be a lovely vision.

**Senator MOORE**—And they could be shareholders in Bendigo Community Telco.

**Mr Cairns**—They could definitely be shareholders in Bendigo telco.

**Senator TCHEN**—As the government senator for Bendigo, I am not surprised that Bendigo is the city that came up with this community model and made it work. As a Victorian senator, I am pleased that we exported this model to Queensland.

**CHAIR**—That concludes this afternoon's public hearing in relation to the committee's inquiry into the Australian telecommunications network. I wish to thank Mr Cairns and the other witnesses for their informative presentations.

**Committee adjourned at 1.35 p.m.**