



Executive Summary of Submission to Senate Committee regarding RBS Charge.

Background

Nbn Co is constructing broadband networks in both profitable and non-profitable areas. In non-profitable areas, broadband will be provided by satellite and fixed wireless networks. The Department of Communications and the Arts (**DOCA**) estimates these networks require \$9.8B in funding and intends placing a tax on all high speed fixed line broadband services to subsidise this cost (**the new tax**). The new tax of \$7.10/month per service is included in the *Telecommunications Legislation Amendment (Competition and Consumer) Bill 2017* and the *Telecommunications (Regional Broadband Scheme) Charge Bill 2017* (**the Bills**).

DOCA estimates that nbn Co will pay 95% of the tax and the remaining 5% will be collected from other carriers operating high speed fixed line broadband networks. DOCA estimates other carriers will pay \$32M in the tax's first year of operation. The tax is fundamentally different from the Universal Service Obligation (**USO**), which is the traditional, tried and tested method of funding the telecommunications services in Australia's vast non-economic regional and rural areas. The USO is collected from all telecommunications companies with revenues above a set threshold, in contrast to the new tax, which only targets the small group of carriers that operate high speed fixed line broadband networks. The DOCA estimated that if the tax is collected in a manner similar to the USO, nbn Co would only have to pay 13% of the amount required to fund its non-economic services.

The problem

The narrow target of the new tax will distort competition, result in consumers paying more for fixed line broadband services and is an unsustainable means to fund the nbn in non-economic areas.

The tax is enormous and represents over 25% of the wholesale price for broadband, which is over 100 times the impost of the current voice USO. This tax will become the largest single business expense for private in operating their networks - larger than staff costs, larger than backhaul costs and larger than rent costs. This will result in significant price hikes in retail broadband, particularly for the cheaper, lower speed fixed line broadband services commonly favoured by budget conscious families.

The Bills exempt the three very large and profitable mobile networks based on a technologically blind view that they don't and won't compete with nbn Co and ignore the growing competitive threat of rapidly expanding fixed wireless networks, which are also exempt.

Apart from giving the carriers operating those other high speed non-fixed line networks a massive competitive advantage in relation to high speed fixed line networks, the narrowly targeted collection base for the new tax severely limits how much it can raise and will result in nbn Co and its customers ultimately having to pay heavily to provide subsidised services to rural and regional Australia. It is likely that non-nbn carriers will take advantage of this cost differential to take further market share from the nbn in profitable metro markets by rolling out wireless and mobile broadband technology, further eroding nbn Co's ability to cross-subsidise non-economic services.

The solution

The new tax should be collected in the same way and possibly in replacement of the USO, from the broad base of the telecommunications industry as recommended by the Productivity Commission and the Vertigan Review. If the new tax is collected in this way, the cost can be spread across many millions of telecommunications services, resulting in only a nominal price increase of some cents per service rather than \$7.10/month for each fixed line broadband service provided on the nbn and the small number of other fixed line networks. This would provide hundreds of millions of dollars per annum for nbn Co to provide broadband in regional Australia, avoid distorting competition in telecommunications markets, make fixed line broadband more affordable for Australian consumers and because it comes from a far broader collection base ensure there is a sustainable means to fund



the nbn in rural and regional Australia. Given that the USO is currently under review, the new tax should not be implemented in the Bills but rather should be incorporated into the USO as part of its review.

Proposed amendments to the Bills

- (1) Remove the narrowly targeted new tax from the Bills and replace it with a tax that is collected broadly from the telecommunications industry in the same manner as the USO.
- (2) Defer implementation of the new tax until the Government has considered and responded to the Productivity Commission's USO report, particularly recommendations 5.1 and 5.2 regarding the provision of baseline voice and broadband services to all premises. This would enable implementation of the new tax to align with the Government's decision about the future of the USO.
- (3) If it is decided not to replace the new tax with a USO collection model suggested in point (1), in the alternative widen the catchment for the new tax so that it includes mobile and fixed wireless broadband providers, i.e. all providers capable of providing a broadband service. This would significantly reduce the impost of the new tax from over 25% to about 5% of the wholesale price for each service.
- (4) Reduce the period for review of the new tax from 4 years to 2 years. This is necessary because of the rapid advancement of broadband technology and the potential for the new tax to distort competition in broadband markets.
- (5) Only apply the new tax prospectively and not retrospectively on services already connected, where investments have already been made, and ROI have not yet been realised.

Supporting submission

The reasoning behind the views and proposals set out in this Executive Summary are explained in detail in the attached Supporting Submission and report from Frontier Economics

OptiComm Contact

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