20 December 2019

Committee Secretary
Senate Standing Committees 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 Environment and Communications Legislation Committee inquiry on the *Telecommunications Legislation Amendment (Competition and Consumer) Bill 2019* and the *Telecommunications (Regional Broadband Scheme) Charge Bill 2019*.

VHA broadly supports the former, in particular the Statutory Infrastructure Provider (SIP) obligations. However, we have strong concerns with the *Regional Broadband Scheme) Charge Bill 2019* as it introduces yet another duplicative, complicated and inefficient subsidy scheme on top of a spider's web of large, opaque and anti-competitive transfers which already plague the industry.

We find it surprising that the Government is proposing to introduce yet another tax on the telecommunications industry without following through on the Productivity Commission's clear recommendations in its extensive review of the large, inefficient and anti-competitive subsidy regime already in place – the Universal Service Obligation (USO).

It is essential to assess the RBS against key principles of fair and efficient taxation. Usually great care is taken to ensure that taxation and other subsidy mechanisms are designed so as to achieve their stated purpose in a targeted manner, to guard against inefficiencies and/or anti-competitive outcomes and ensure investment and competition can flourish. The RBS itself does not pass these tests in isolation and cannot possibly pass these tests when added to the list of pre-existing opaque subsidy and taxation mechanisms.

In light of the Government's Deregulation Taskforce to drive improvements to the design, administration and effectiveness of government regulation to ensure it is fit for purposes, VHA believes the RBS is out of step and out of date. Not only will the RBS perpetuate the trend of opaque and anticompetitive telecommunications policy, it will chill investment in both fixed and mobile telecommunications infrastructure during a time of weak productivity and growth when investment projects are sorely needed.[1]

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1 https://www.theaustralian.com.au/business/economics/rba-governor-philip-lowe-tells-business-to-scrap-outdated-plans-to-lift-growth/news-story/e35da27d6c3cae84a3a7821a848fba41

VHA believes that reform of existing ineffective policies and subsidy schemes into aligned, coherent and efficient arrangements will deliver far better outcomes for regional Australia and NBN's regional services.

Reform of existing policies and subsidy arrangements are needed

The current USO arrangements are both costly and outdated. Each year, the telecommunications industry via the Telecommunications Industry Levy (TIL) and Australian taxpayers subsidise Telstra's regional copper and payphones network to the tune of $297 million, in the same areas being serviced by the NBN fixed wireless and satellite networks. It is important to note that fixed wireless services are more than capable of delivering voice services but given the USO is at the same time subsidising the provision of voice services over Telstra's copper network, there is no incentive for NBN Co. to invest in the provision of these services.

Given the USO was established as a funding mechanism for uneconomic infrastructure it should be updated for the 21st century and directed towards funding NBN services in regional Australia. This is particularly relevant given NBN Co.'s proposed role as the default Statutory Infrastructure Provider for all of Australia. Another alternative to the RBS is direct budget funding which has been recommended by the ACCC.

The USO is not the only subsidy scheme in place for the provision of regional telecommunications services. For example, taxpayers are also subsidising the telecommunications industry's provision of regional mobile services with $220 million in federal funding and $186 million in state funding provided to date. Telstra has received funding for 797 of the 1,047 total base stations funded to date (or 76 percent), which has the effect of further entrenching its regional mobile monopoly.

It is absurd when you consider the complex flows of money between Telstra, the NBN, taxpayers and industry that are due to the myriad of overlapping subsidies, levies and other arrangements that have been put in place over a number of years. These include, but are not limited to:

- NBN subscriber migration payments to Telstra and Optus ($2.3 billion in 2019-20);
- NBN rental payments to Telstra for infrastructure, increasing to $1 billion per year from 2020-21;
- NBN, taxpayer, industry (and even Telstra) TIL payments to Telstra of $297 million per year;
- Taxpayer subsidies for NBN services of ~$96 million per month (~$15 per service per month x 6,388,677 active services as at week ending 12 December 2019);
- Taxpayer payments to industry for mobile black spots ($406 million to date, with another $160 million committed for further rounds);
- Industry payments for spectrum licences and other charges (VHA alone paid ~$200 million in spectrum and licence fees in 2018); and
- Industry payments to NBN via artificially high access charges.

To illustrate this, we commissioned the Centre for International Economics (CIE) to put together a case study which illustrates the exponentially increasing absurdity of the telco industry subsidy and cross-subsidy schemes from the point of view of a hypothetical business. This follows its efforts to enter the market as a broadband provider and understand the various overlapping telecommunications sector policies, taxes and subsidy schemes. This is contained in the attached report.

The RBS further adds to this complexity and financial burden on industry and consumers. As well as the more obvious concerns that the proposed tax is based on 2015 costings and NBN will pay the majority of the RBS to itself, it is based on the false premise that NBN's 'commercial' fixed-line networks are currently cross-subsidising its 'non-commercial' fixed wireless and satellite technologies.

The CIE's analysis in the attached report finds that NBN Co's numbers do not show any cross-subsidy between the commercial and non-commercial services – only a subsidy from the taxpayer to both. On a per premise basis, the CIE calculates that NBN's 'non-commercial' services are losing $15 per premise activated per month. NBN's 'commercial' services meanwhile are losing $7 per premise per month.

NBN regional services should be funded via transparent arrangements and it is crucial that NBN' Co's costs are not overstated. The RBS is an out of date and inefficient tax on the telecommunications industry and an indirect tax on broadband consumers.

The Government should focus on reforming the USO before considering another large tax on industry to fund regional telecommunications services given the billions of dollars already being provided to subsidise telecommunications services across different technologies in regional Australia.

VHA is happy to discuss any aspect of this submission with the Committee. Please contact VHA's Head of Public Policy, Tim McPhail at

Yours faithfully

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