

Chapter 4

Access programs

The universal service obligation

4.1 The Universal Service Obligation (USO) is effectively the safety net in the Australian telecommunications system that ensures that a minimum standard of telecommunications services is available to all Australians irrespective of their location.¹ The USO was strongly supported by many witnesses:

I think without the USO there would not be one telephone service in remote communities. As I mentioned, it is not a commercially viable environment for any operator to operate in at this stage, and it is not worth their investment to try and encourage the use by the community of telecommunications and generate a market. So the USO is absolutely essential for remote areas where competition policy will not deliver telecommunications policy.²

The USO is clearly a very important mechanism for ensuring all Australians have equitable access to a standard telephone service. Optus endorses the maintenance of the USO.³

I do not think we should ever consider dispensing with minimum government standards. The NFF believes that it is the government's role to ensure that minimum service standards are in place for both voice and data telephony and that they should continue.⁴

4.2 Many witnesses, while supporters of the USO, expressed concern that it is inadequate and needed to be upgraded. Their concerns primarily focused on its emphasis on voice services and the need to extend its scope to keep pace with technological advances, especially as these relate to data services:

What we would recommend for a USO is simply upgrading the level so that there is recognition that we have moved beyond a telephone service, which is still an issue in some areas – we know that. It is important for people to be able to be online, largely for Internet access and for what it can do.⁵

1 The USO is more fully described in Appendix 5.

2 Mr Les Hodgson, Northern Territory Government, Committee Hansard, 28 March 2003, p 285.

3 Ms Judy Anderson, SingTel Optus Pty Ltd, Committee Hansard, 6 December 2002, p 259.

4 Mr Mark Needham, National Farmers Federation, Committee Hansard, 6 December 2002, p 273.

5 Ms Helen Scott, Council on the Ageing, Committee Hansard, 26 November 2002, p 57.

The universal data service obligation (USDO) to rural and regional areas of 19.6kb is well below that expected and received by city consumers. It is also below the data acceptance level of Internet Service Providers (ISPs).⁶

There is a role for regulation and a role for grants. As regulation has failed, we have become more reliant on grants, such as the USO. In rural and remote areas, as mobile phone and data services are becoming as important as voice services, the current DDSO is inappropriate.⁷

The universal Service Obligation mandates the provision of an analogue telephone service. This level of service is grossly inadequate in today's society. The USO obligations should be completely overhauled and a minimum requirement of a telephone service and a 256 kbit/s IP service should be introduced.⁸

4.3 While some witnesses recognised recent efforts to improve the USO, they acknowledged that this did not go far enough:

A number of recent national programs that extend USO arrangements will help alleviate many of the deficiencies with current services. These programs include the introduction of untimed local calls in extended zones, local call cost for Internet access, the extension of the USO to include digital data ISDN services and the extension of mobile phone services to some smaller communities. Whilst these programs should meet the needs of many residential telephone and Internet customers they will not address the need for cost effective high capacity data communications links required for many local service providers.⁹

4.4 Not all witnesses support the USO. They pointed to what they considered to be more fundamental deficiencies than its limited scope. One such deficiency was the tendency of the USO to discourage carriers from providing more than the basic level of service mandated in the legislation:

The USO scheme is focused on ensuring that rural consumers receive a basic level of service, by bridging financial gaps between the service which would be commercially viable and the service the government sees as essential....this encourages a lowest common denominator approach. It is not in the interest of the carriers to offer extra levels of service, as they do in

6 Ms Roslyn Joseph, Submission 32, p 1.

7 Government of Western Australia, Submission 44, p 11.

8 Communications Experts Group Pty Ltd and Community Tele-Services Australia Inc, Submission 86.

9 Northern Territory Government, Submission 48, p 6.

the cities. If they increase the level of service, they will only increase their costs.¹⁰

4.5 Vodafone representatives consider existing USO arrangements provide Telstra with a competitive edge over other providers:

While Vodafone is not questioning the social objectives of the USO, Vodafone considers that the current USO regime gives Telstra, as the provider of the USO, significant competitive advantages, including direct revenues from products and services purchased by USO customers, and the enhancement of Telstra's brand.¹¹

4.6 Optus considers the USO an impediment to competition in rural and remote areas:

The USO is one of the biggest impediments to rural and remote competition. Alternative providers must pay Telstra to deliver services to these areas before they can commence offering their own services. While Telstra's competitors pay it the \$50 million [their contribution to the levy] to bolster its rural and remote network, there is a strong disincentive to invest in providing alternative telecommunications networks and services in these areas.¹²

4.7 Some witnesses suggested that the USO was not capable of fulfilling its fundamental objective of providing universal access to telecommunications and that other means should be found of meeting these social policy objective.

In many respects, I would like the USO just to die. I think it has been a policy distraction.¹³

Suggested improvements to the USO

4.8 As noted, many suggestions for upgrading the USO related to the desirability of extending its scope. Other witnesses with more fundamental objections to existing USO arrangements had more far-reaching suggestions for improvement. One was to give incentives to carriers to provide the services now available through the USO (perhaps through competitive tendering) rather than forcing them to do so through legislation:

10 Attachment to Submission 67, Mr Chris Dalton and Mr Mark Armstrong *Rural Telecommunications Policy Reform*, p 2.

11 Vodafone Australia, Submission 90, p 4.

12 Optus, Submission 91, p 20

13 Mr Christopher Dalton, Committee Hansard, 19 May 2003, p 715.

...the legislative mechanisms are just too slow. That is why I go back to a competitive tendering sort of arrangement, and I think the government's policy of a \$150 million bid for untimed calls and extended zones was exactly the way to go, because Telstra, or whoever was the winner, had to volunteer additional services. You can set a benchmark whereby you are effectively providing incentives to carriers to provide services rather than beating them with a stick to make them provide services.¹⁴

4.9 Other suggestions related to better ways of funding the USO. One suggestion was that it should be directly funded by government.

...the USO is a *social policy* which needs to be funded by the total Australian tax base, and fund it that way- and stop discriminating against new broadband carriers by expecting them to carry the continued support of this social policy regime for the provision of voice telephone services.¹⁵

We do not believe that the funding should come from the industry. If Telstra is the universal service provider, that is well and good. Universal service may well be necessary in some uneconomic areas of the country, but it is about us funding Telstra. If it is a government social policy objective to provide services to these areas, then funding should come from consolidated revenue.¹⁶

4.10 Another suggestion was that Telstra itself should fund it:

Consumers, competition and regional Australia would be better served by making Telstra liable for the whole of the USO. While this would comprise a significant policy shift, it would recognise the significant competitive imbalance that exists in regional areas, an imbalance that has been positively supported by regional policies of government since de-regulation.¹⁷

4.11 Whether Telstra itself funds the USO or whether existing funding arrangements continue, it was suggested by Optus that the real benefits of the USO to Telstra should be adequately costed to ensure that there is no cross-subsidisation from other carriers:

... we think there is a very good case that other carriers should not have to cross- subsidise Telstra for the provision of USO services, not only because of the very detrimental impact it has on competition and providing incentives for us to deliver services in regional areas but also because of ...the fact that there is no consideration in the USO costing of the intangible benefits that Telstra receives from being the USO provider. In the UK those

14 Mr Christopher Dalton, Committee Hansard, 19 May 2003, p 717.

15 Agile Pty Ltd, Submission 136, Attachment A, p 8.

16 Ms Georgia-Kate Schubert, Vodafone, Committee Hansard, 28 March 2003, p 293.

17 Optus, Submission 91, pp 21-22.

benefits have been costed so that the benefit offsets the cost. British Telecom is the universal service provider and there is no cross-subsidy from carriers. At the very least, in the Australian context there needs to be a rigorous study as to the amount of these intangible benefits, to look more carefully and realistically at the USO costing.¹⁸

4.12 It was suggested that in the current debate about costs, Telstra had little incentive to reduce its cost estimates and other carriers had little incentive to agree to an increase in cost estimates.¹⁹ Increasing the USO subsidy amount until there is real competition in USO contestability was suggested:

In this situation, the subsidy would no longer be a reimbursement of a loss. Instead, it would become an incentive to provide a service, with those choosing not to provide a service making the judgement that the loss they might incur in providing the service would be greater than the cost of the USO levy to subsidise another carrier to provide the service.

This strategy of increasing the USO subsidy to establish competition in the provision of services would lead to a more equitable sharing between carriers of the USO losses incurred by Telstra or an increase in the range of services offered to consumers. Both outcomes are desirable.²⁰

Review of the USO

4.13 On 1 December 2003 the then Minister for Communications, Information Technology and the Arts, the Hon Daryl Williams MP, announced a review of the operation of the USO. In announcing the review the Minister said that:

The review will address two specific recommendations from the RTI. These relate to the current arrangements for costing and funding the USO and whether network extension and trenching costs are impeding access to USO services.²¹

4.14 On 17 June 2004 the Government released its report on the review of the operation of the USO.²² The review found that the current model for funding the USO is no longer viable in its current form and, after reviewing several options, suggested

18 Mr David McCulloch, SingTel Optus Pty Ltd, Committee Hansard, 6 December 2002, p 266.

19 See Attachment to Submission 67, *Rural Telecommunications Policy Reform*, Chris Dalton and Mark Armstrong, pp 51-51.

20 Mr Chris Dalton and Ms Ros Hill, Submission 67, Part 3, p 51.

21 The Hon Daryl Williams, Minister for Communications, Information Technology and the Arts, News Release, 1 December 2003.

22 Department of Communications, Information Technology and the Arts, *Review of the Operation of the Universal Service Obligation and the Customer Service Guarantee*, 7 April 2004.

that the preferred approach would be to require Telstra, as the primary universal service provider, to fund all cost associated with fulfilling the historic telephony USO. The review stated that this approach has the lowest administrative costs, the least complexity, the greatest certainty and the fewest practical risks. It further suggested that the equity concerns raised by this approach could be partially addressed through a requirement that parts of industry that qualify make some other contribution to services in regional Australia.²³

4.15 With regard to trenching costs the review found that current trenching arrangements should remain in place and that any undue burden of trenching needs on particular disadvantaged customers could be more efficiently supported through transparent and targeted funding arrangements.²⁴

The Digital Data Service Obligation

4.16 The *Telecommunications (Consumer Protection and Service Standards) Act 1999* imposes the Digital Data Service Obligation (DDSO) on the universal service provider. The DDSO requires Telstra to provide access to a digital data service equivalent to 64 kbps to 96% of the Australian population. This requirement is normally satisfied through the provision of ISDN services.

4.17 This 64 kbps requirement is clearly below even the most undemanding definition of broadband. Submissions to the review of the Universal Service Obligation suggested that the DDSO be upgraded to include even higher bandwidth services. These suggestions were rejected by the review which stated that the issue was outside of the terms of reference of the review.²⁵

Summary

4.18 While the USO has been relatively effective in ensuring that fixed line voice services are available to all Australians on an equitable basis, it has failed to provide adequately for other services which are fundamental to a modern society. In particular it fails to address the need for affordable access to adequate data services.

4.19 As a statement of principle, the Committee stresses its view that all Australians should have the right to expect Government policy to ensure that they have equitable access to broadband services irrespective of where they live.

23 Department of Communications, Information Technology and the Arts, *Review of the Operation of the Universal Service Obligation and the Customer Service Guarantee*, pp 158-159.

24 *ibid.*, p 195.

25 *ibid.*, pp 48, 53.

Government programs to improve services

4.20 Since the introduction of the current regulatory regime in 1997 the Government has introduced a range of programs aimed at improving telecommunications services. Despite the benefits of these programs to some consumers there are drawbacks in the way that many of the programs have operated.

4.21 Most of these programs have been operated in conjunction with Telstra, with Telstra as the successful tenderer, or with Telstra being involved in many of the individual projects funded under the program.

- Telstra was the successful tenderer for the Extended Zones Program under which \$150 of Commonwealth funding was provided to gives customers in the extended zones access to untimed local calls over a wide area and a two-way satellite based Internet service.
- Telstra was awarded a \$22 million dollar contract under the Governments program to improve mobile phone coverage for towns with a population of 500 or more.
- Under the Regional Mobile Phone Program Telstra was awarded a \$19 million contract to provide improved mobile phone coverage on regional highways, a \$19 million contract to provide mobile coverage for 55 towns with populations under 500, and \$7 million towards the WirelessWest project.
- The Internet Assistance Program was aimed at improving dial-up access speeds over the Telstra network and was jointly funded by Telstra and the Commonwealth.
- Telstra is one of the participating satellite mobile phone service providers under the Satellite Phone Subsidy Scheme.
- Telstra was involved in projects funded under the Networking the Nation and Building Advance Rural Network programs
- Several of the initiatives under the Telecommunications Action Plan for Remote Indigenous Communities have been carried out in conjunction with Telstra.

4.22 In each case these programs were of benefit to the users of telecommunications services and there were reasons for the involvement of Telstra. However, the effect of Telstra's involvement in these programs is to enhance its position as the dominant carrier in the Australian telecommunications industry. In the view of the Committee Government programs should be about helping to foster competition, as well as helping people.

4.23 Another serious deficiency in many of these programs is that they have limited funding or a limited timeframe. The Coorong Communications Project was funded through the Networking the Nation program.²⁶ It resulted in the development of new end-to-end infrastructure for broadband data and voice services delivery into the Murray Bridge and Coorong regions of rural South Australia.²⁷

4.24 Further expansion of that successful model across much of regional South Australia was envisaged by various community and local government groups in South Australia. However, the NTN program ended and funding under the Building Advance Regional Networks program was not forthcoming:

Grant applications have been made to the successor to NTN in this context, a fund called BARN (“Building Additional Regional Networks”). The BARN fund cited the Coorong network as an example of the intended deployment of BARN grant funding.

Unfortunately, years of repeated attempts to fund these extensions of this successful project into new geographic areas have, to date, been unsuccessful.

The reasons for this lack of success are a source of mystery and frustration to the communities concerned. The extent and severity of this situation are documented in my submission to the BAG process (Appendix A) and in more specific detail about the problems with BARN grant funding processes (in Appendix B)²⁸

4.25 A further issue of concern is that these programs do not provide universal benefits. While some communities benefit from extended mobile phone coverage, improved local infrastructure, or government subsidies, other communities are left out.

National Broadband Strategy

4.26 In response to some of the recommendations of the Rural Telecommunication Inquiry and the Broadband Advisory Group the Government has developed a National Broadband Strategy. The key elements of that strategy are:

- \$2.9 million over four years to fund the National Broadband Strategy Implementation Group;
- \$8.4 million to fund demand aggregation brokers;

26 The Coorong projects is discussed further in Chapter 6.

27 Agile Communications, Submission 136.

28 *ibid.*

- \$23.7 million in catalytic funding over four years to accelerate the roll-out of broadband in regional Australia using key sectors such as health, education and local government as anchor tenants; and
- \$107.8 million over four years for the Higher Bandwidth Incentive Scheme (HiBIS).

4.27 HiBIS is intended to promote equitable access to broadband services by providing one-off 'per customer' payments to service providers who provide eligible customers with higher bandwidth services of a specified minimum functionality at prices comparable with those available in metropolitan areas. The key elements of the proposed scheme are:

- it will apply outside metropolitan areas and those areas that have ADSL access at metropolitan prices;
- the price of the 'benchmark' service will need to be comparable to the price of such a service in metropolitan areas;
- eligible consumers will be residential, small businesses, small not-for-profit organisations and certain public access facilities;
- providers can use any technology - eg. cable, digital subscriber line (DSL), wireless local loop (WLL) or satellite; and
- providers will have to offer a 'benchmark' 256/64 kbps service.

4.28 On 8 April 2004 Telstra issued a press release highlighting its intention to use the HiBIS scheme to extend broadband coverage to more locations and claiming that the scheme 'aims to further extend Telstra's BigPond Broadband ADSL roll-out'.

"The Government's innovative HiBIS scheme will assist the provision of broadband services to rural and remote Internet users on a more affordable basis," he said.

"We will be able to extend BigPond" Broadband ADSL to more locations, and those who live beyond the reach of ADSL will have access to significantly lower satellite Internet prices as a direct result of the Government's support program.

"ADSL will soon be within the reach of more communities because, in areas covered by the scheme, there should be a reduction in the number of people needed to register their demand in order to make an exchange upgrade commercially viable.

"The Telstra ADSL Demand Register was established to give communities the opportunity to trigger the roll-out of ADSL to their towns or additional exchanges. A number of communities have already successfully achieved this as a result of the scheme. The Government's HiBIS scheme aims to

further extend Telstra's BigPond" Broadband ADSL roll-out," Mr Campbell said.²⁹

4.29 The Committee welcomes any development which makes higher speed data services available to more consumers. However, it seems that, once again, a publicly funded scheme is likely to result in Telstra's dominant market position being further consolidated.

The 'doughnut'

4.30 One effect of the application of Government programs to particular geographic areas is what was described to the Committee as the 'doughnut'. This term describes areas which have poor telecommunications services because they lie beyond the more densely populated areas of Australia, but do not lie in the remote areas where many Government programs are focussed.

4.31 Since July 2001 customers in the extended zones have had improved access to telecommunications as a result of a Commonwealth Government agreement with Telstra to provide the residents of Telstra's remote extended zones with untimed local calls within their zone, to neighbouring zones and to the community service town they use to access the various community services they need. Improved Internet services are also part of the agreement. There are 111 Extended Zones covering about 80 per cent of the Australian landmass, containing about 40,000 services.

4.32 During the Committee's inquiry it frequently heard from consumers who were located outside the better-served metropolitan areas and regional centres, but who did not live in an Extended Zone. These consumers often have very poor telecommunications services but are ineligible for the special assistance available to their neighbours in the Extended Zone. This area was often described as the 'doughnut' - not close enough to an exchange perhaps to access ADSL, not remote enough to gain access to the Government's assistance package for improved telecommunications services. While the concept and geographical area of the doughnut may be imprecise due to localised factors, its existence has a very definite impact on the lives of those who reside and work within it.

Problems for consumers

4.33 The lack of subsidy for people living in this area as compared with those living in rural and remote areas, and the costs faced as a result of a lack of subsidy, were the two main concerns expressed on behalf of those living within the doughnut:

A problem with many of those discount schemes is that they have been targeting people in extended zones. We do not disagree with that, but it has left very disadvantaged people and businesses that are not in extended zones but are outside the reach of ADSL and ISDN. We call them the doughnut.

29 Telstra, *Telstra's major push to broadband the bush*, Media Release, 8 April 2004.

There is a considerable issue with doughnuts: people who cannot access terrestrial high-speed Internet, not even broadband, and yet do not qualify for any subsidies that are offered.³⁰

In country Western Australia, if you live within four kilometres of an exchange in a town of over 5,000 population, you can access broadband. It is the people who live more than four kilometres from the exchange and live in a Standard Zone who are the most disadvantaged with respect to broadband access. Those who live in Extended Zones qualify for a subsidy for broadband access.³¹

And:

Satellite broadband services are available, but at a cost that many rural people feel is unjustifiable, both from a business and personal viewpoint. That cost is also not comparable nor equitable with that paid by city consumers.³²

4.34 The fact that mobile phone coverage is also often inadequate for residents living within the doughnut only adds to their levels of frustration, as was frequently referred to in submissions.

Possible solutions

4.35 While the definition of the Extended Zones is a matter of Government policy, Telstra suggested that many of the problems relating to access and service quality for people within the doughnut will be overcome by new developments in technology, which led it to discourage the Committee from seeking to make any well-meaning recommendations intended to shrink the adverse effects of the doughnut phenomenon, which in time will prove unnecessary and potentially unhelpful. Telstra claimed that many consumers in this area are already benefiting from, for example, the installation of boosters to extend ISDN from approximately 4.5 kilometres from an exchange to approximately 20 kilometres from an exchange and from Telstra's decision to drop charges for booster services.³³ The installation of DSLAMs in smaller exchanges will boost ADSL coverage.

4.36 The combined effect of these developments will be, according to Telstra, to shrink the doughnut, leaving a much smaller number of people reliant on unsubsidised satellite services:

30 Mrs Sheryl Siekierka, Western Australian Department of Industry and Resources, Committee Hansard, 9 May 2003, p 657.

31 The Government of Western Australia, Submission 44 p 7.

32 Ms Roslyn Joseph, Submission 32, p 2.

33 For a discussion of these issues see Committee Hansard, 7 August 2003, pp 924-925.

What we see is a progression over time of improved access to this. If I go back even 12 months, we have seen a number of initiatives occur that have continued to expand the footprint where high-speed connectivity is possible. We are not at the end of that journey yet. We can provide high-speed Internet to people wherever they are at a commercial cost, and, I think, over time as we go forward, we will see further developments that will address those issues.³⁴

4.37 In the longer term Telstra considers that a combination of existing and new technologies is likely to improve access and quality for all consumers:

... a lot of work is going on now in relation to fibre to the premises ... In addition to that, there are a number of interesting broadband wireless type capabilities emerging, some of which may prove in as the cost of the technology matures. We would think in the long term that, to move into serious bandwidth type capabilities, you are probably talking a combination of the fibre end, some sort of wireless infrastructure and/or satellite infrastructure, but it is probably not a universal technology.³⁵

4.38 Regardless of the technology advocated or adopted, cost remains an issue. One suggestion for addressing cost issues was to extend the boundaries of the extended zone to cover people in the doughnut who would then be eligible for government subsidies.

Telstra has also provided subsidised satellite services for an extended zone for those regional consumers with less than 19.2kilobits per second. There is a consumer equity issue as to why a pastoral station in the Murchison can access this subsidy but a user in a small regional town in the south-west cannot, despite similar poor download access speeds and no access to other broadband services. The extended zone is limited to pastoral areas in the country and must be expanded to cover regional areas that cannot meet the benchmark speeds of 19.2.³⁶

4.39 Telstra pointed out that while changes to the definition of the extended zone might solve some problems, it was equally likely to produce others:

It is always a challenge once you start drawing lines on a map – there is always one side of the line and the other side of the line. It is interesting because, historically, people argued strenuously to get out of the extended zone area to allow them to get untimed local calls. Now we find people arguing just as strenuously to get back into the extended zone because that allows them access to other services. .. I think, by moving the zone, you are

34 Mr Denis Mullane, Manager, BigPond Network Capability, Proof Committee Hansard, 7 August 2003, p 924.

35 *ibid.*, p 930.

36 Mr Don Punch, South West Development Corporation, Western Australia, Committee Hansard, 9 May 2003, p 617.

likely to create a different set of issues – you might eliminate one but you create others.³⁷

The zones were not necessarily designed at the same time as we saw these technological developments. If you then tried to accommodate a zone based around a technology and that technology changes, what would you do then?³⁸

Summary

4.40 The Committee is sympathetic to the concerns of those living in the so-called ‘doughnut’. The problem is substantially the result of a decision of Government policy, and one developed with commendable altruistic purpose but no doubt driven by budgetary considerations. The Committee took evidence from residents of the Extended Zones who were, not unexpectedly, supportive of the policy, although not entirely happy with all aspects of their telecommunications facilities.³⁹ The Committee is also conscious of the significance of communications to those living in the more isolated and remote parts of Australia, and does not take issue with the Extended Zones concept.

4.41 The challenge facing the Committee is whether - on equity grounds - to call for immediate Government intervention to address the problems of those living in the ‘doughnut’. Telstra has argued that technology will solve the problem eventually, but the Committee is concerned that the population decline in many regional centres will lead to their being overlooked in the roll-out of any new technology on commercial grounds. The Committee believes that the Australian Communications Authority should conduct a comprehensive review of the issues as a matter of priority and determine whether a Government program is required in the short-term.

37 Mr Don Pinel, Regional Managing Director, Telstra Country Wide, Queensland, Telstra, Proof Committee Hansard, 7 August 2003, p 926.

38 Mr Bill Scales, Group Managing Director, Regulatory Corporate and Human Relations, Telstra, Proof Committee Hansard, 7 August 2003, p 926.

39 See, for example, the evidence of Mrs Jano Foulkes-Taylor, a resident of Yalgoo, Western Australia, given by teleconference to the Committee on 20 May 2003, *Proof Committee Transcript*, p. 809 and her submission no. 137. Mrs Foulkes-Taylor is a member of the Telstra Country Wide Advisory Board.

