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Senate Environment, Communications, Information Technology and the Arts
Committee
Department of the Senate
Parliament House
Canberra ACT 2600

Inquiry into the Provisions of the Telecommunications Legislation Amendment
(Regular Reviews and Other Measures) Bill 2005

**SUBMISSION BY THE SMALL ENTERPRISE TELECOMMUNICATIONS
CENTRE LIMITED (SETEL)**

1. Background

The Small Enterprise Telecommunications Centre Limited (SETEL) is a not-for-profit public company limited by guarantee. Membership comprises industry associations, with members predominantly from the Small Business sector, & businesses expressing their interests as users of telecommunications services. Sector coverage, through member associations, exceeds 600,000 small businesses.

SETEL participates in a wide variety of telecommunications industry fora. Our work is supported by the Commonwealth Government, through the 'Grants to Fund Telecommunications Consumer Representation' program of the Department of Communications, Information Technology and the Arts. The primary role of SETEL, in terms of grant funding, is to advance the interests of the Small Business sector as users/consumers of telecommunications services.

SETEL liaises extensively with industry, government and regulators on telecommunications matters affecting Small Business and has substantial involvement in the Australian Communications Industry Forum (ACIF) consumer code/guideline development processes. SETEL maintains active input into the Australian Competition and Consumer Commission (ACCC), the Australian Communications Authority (ACA) and the Department of Communications, Information Technology and the Arts in response to discussion papers and inquiries on telecommunications matters. A significant level of involvement is maintained with the TIO Council.

Small Business sector support for SETEL continues through the direct involvement of the Small Business Coalition, ACCI, COSBOA and Australian Business Limited in particular. SETEL co-hosts a website for the Small Business Coalition. SETEL also provides administrative and technical support for the Small Business Coalition E-commerce and Telecommunications Advisory Group (ETAG).

SETEL seeks to raise the levels of awareness of telecommunications issues, products and services in the Small Business sector. This is achieved via Newsbriefs to members plus the publication of material on a website. SETEL seeks to assist small businesses to make informed decisions as in the telecommunications market. The website features telecommunications material from Government and industry sites.

A key component of SETEL's activities is to focus on the extent and quality of supply of telecommunications services to small businesses in non-metropolitan, rural and remote regions of Australia, particularly in areas where competition is either non-existent or not adequately developed. This does not mean that SETEL is satisfied with the general level of communications services provided to SMEs in urban areas, particularly in relation to provisioning of extra lines, mobile 'black spots', availability of non-standard telephone services and internet access speeds. A continuing challenge will be to derive increased focus on the telecommunications service situations facing small businesses in non-metropolitan areas to determine whether there are serious inequities in terms of service delivery.

Emphasis was placed on determining the telecommunications needs of home-based and micro businesses, (as the majority of these entities are not represented by industry associations), and a report was produced in 2004. Not surprisingly, the availability of affordable medium/high-speed data services remains a key issue for many in this sector given that a significant number are located in newer sub-urban and rural developments not adequately serviced by communications infrastructure greater than prescribed under the Universal Services Obligation.

SETEL adopts both a pro-active as well as a re-active stance in relation to telecommunications policy and market developments, recognising that small businesses in general prefer to operate in a competitive environment.

SETEL's Objectives

- Advance and represent the interests of Small Business in telecommunications:
 - To Governments
 - To the Federal Public Service (in particular the Department of Communications, Information Technology and the Arts)
 - To the Australian Communications Authority and the ACCC
 - To the telecommunications industry
 - To other government-related areas impacting on the Small Business sector.
- Actively participate in ACIF code development programs and other ACIF activities, which have a bearing on Small Business.
- Raise awareness of telecommunications issues in the Small Business sector.
- Promote developments in telecommunications to the Small Business sector to increase the level of understanding of telecommunications issues and policy development and to foster greater input into policy debates on such matters.
- Provide briefing on telecommunications to the Small Business sector, mainly through industry and member associations.
- Seek to raise the level of participation by the Small Business sector in telecommunications industry fora.
- Provide a forum and co-ordinating role for Small Business in relation to the widespread adoption of electronic commerce.
- Continue liaison with consumer and user group bodies and representatives in the telecommunications sector and other industry associations involved in the telecommunications industry.

- Seek to recognise and promote the needs of different size related categories of small business - home-based and non-employing businesses, micro businesses (5 or less staff), larger small businesses (including rural businesses) and medium size businesses which make up the SME sector.
- Seek to raise small business awareness of how telecommunications can be used as a driver of business success, particularly through involvement in e-commerce activities.
- Seek to determine and address solutions for the adoption of e-commerce by associations and their members and the implementation of outcomes from an E-commerce Roundtable/Forum for SME's.
- Seek remedies to address SETEL's capacity to serve the interests of small business in domain name administration and to facilitate access to reliable internet connections at speeds sufficient to encourage the uptake of productive new web-based development tools.

SETEL seeks to continue its range of activities, including:

- fostering awareness of telecommunications issues throughout the small business sector,
- representing the interests of small businesses (as consumers of telecommunications services) in the development of Government and industry policy in relation to telecommunications,
- facilitating discussion of and research into telecommunications issues, and
- informing and educating small businesses and small business associations on telecommunications issues.

An integral part of this project involves efforts to improve the self-management of telecommunications issues and services by small, micro and home-based businesses.

2. Specific Comments on the Bill

In view of the state of progress in providing widely available and affordable medium speed data services in non-metropolitan areas SETEL would like to see the review process timeline contracted in the first instance so that the review is completed (as far as possible) within two years of the release of the Regional Telecommunications (Estens) Report.

The next review should be completed within three years after the first review report is presented to the Minister and subsequent reviews can follow a five-year time span only if satisfactory levels of service have been achieved and noted in previous reviews.

There must be a formal annual reporting mechanism on the 'state of play' in the bush and this report could feature in an ACMA report.

Membership of the Review Panel should comprise independent representatives. No Telstra employee should be included in RTIRC membership. A majority of non-Telstra members is not sufficient.

Terms of appointment may need to be varied if review timeframes are shortened.

The budget for the review process needs to provide for sufficient assistance, preferably over and above that provided by Departmental sources.

3. General Comments

SETEL supports the concept of the establishment of a review mechanism for telecommunications services in regional, rural and remote areas but feels that more emphasis needs to be placed on all areas of Australia not receiving telecommunications services equivalent to those available, at affordable rates, to CBD or metropolitan businesses and residents. We note that inner suburban areas of Sydney experience problems in obtaining quality broadband access due to technological issues or lack of suitable infrastructure. SETEL has developed a three tier set of policies with a central theme of seeking ubiquitous medium-high speed broadband access, at affordable levels, for all Australians.

The Review process may well focus on non-metropolitan areas but SETEL feels that a significant proportion of its client' base will fall outside the parameters of the review. In addition SETEL feels that the start point of the review may be influenced by the claims that services in 'the bush' are already 'up to scratch' whereas SETEL's perception is that a 'Standard Telephone Service' benchmark is no longer relevant to the needs of small, micro and home based business users. In fact most residential users have moved beyond this outdated benchmark.

4. SETEL's Policy "Wish-list"

TIER 1. Aims/Statements

All Australian small, micro and home-based business telecommunications users should have access to competitively priced, innovative, quality services equivalent to, as far as possible, world's best practice.

- **Competition**

SETEL favours strong competition between telecommunications carriers and service providers. Regulation, policies and funding programs should be designed to foster innovation and the development of competition in a range of services throughout Australia with the aim of delivering pro-competitive outcomes for all end users.

- **Innovation**

SETEL encourages the development and deployment of new technology and services as a way of fostering competition and encouraging adoption of e-commerce and new applications e.g., IP and Wireless based services.

- **Funding the USO**

The Universal Service Obligation (USO) should be funded by the three tiers of Government to conform to social policy and regional development initiatives.

(Alternatively USO contributions should be directed to an industry infrastructure fund to enhance provision of competitive infrastructure and services in all areas.)

- **Access**

Any-to-any connectivity is critical to effective competition and, consequently, to end-users. Access to competitors' networks should be provided on cost-based and non-discriminatory price and non-price, terms and conditions.

- **Anti-competitive behaviour**

Market power should not be allowed to stifle competition. Regulatory authorities should try to prevent abuses of market power by using information gathering and reporting powers to keep markets informed. Where necessary, regulatory authorities should have the powers and resources to respond quickly to instances of abuse of market power.

- **Broadband connectivity**

All Australian small, micro and home-based business users should have DSL equivalent access at speeds of 256 Kbps and broadband access at speeds of 2Mbps or more. To maintain competitiveness, Australian users should have broadband availability, speed, data download and prices at world's best practice. Government policy and funding programs should foster innovation and deliver pro-competitive outcomes for end-users.

- **Regional Communications**

Users of communications services in regional Australia should have access to the same range of services, at the same prices and levels of service as metropolitan users.

TIER 2. Programs (to be implemented to facilitate access by small, micro and home-based businesses to faster data services.)

Introduction (Programs)

SETEL wishes to see tangible Government policy and program advancements to ensure that effective competitive supply of broadband (wireline ADSL and cable) services is fostered throughout Australia. A form of facilities-based competition is preferable. Disruptive technologies, such as wireless, are not seen to be sufficient to provide sustainable competition to wireline services in the business data market.

Small, micro and home-based businesses can benefit from the implementation and rollout of wireless services in the short to medium term as their requirements for very high speed data services have not yet been developed, mainly due to the paucity of applications available. Geographic availability and price sensitivity remain key inhibitors to adoption of wireless services by many small, micro and home-based businesses.

The "Build it and they will come" concept of infrastructure development has not been successful with the small, micro and home-based business sector. The lack of an identifiable value proposition remains a key factor. Furthermore the supply side of the industry places excessive reliance on the user/demand side to comprehend and assimilate complex technologies. For time-poor small, micro and home-based businesses the reliance on DIY services and the growing threat of malware creates significant barriers to adoption.

SETEL supports the development of trusted intermediaries and local/regional 'ownership' models so that assistance and guidance is made available to users in order to facilitate uptake of new services. The continued reliance on service providers and channel partners to retail products and services, of growing complexity, to small, micro and home-based business users is holding back adoption rates.

SETEL accepts that many small, micro and home-based businesses are fearful of the impacts on future supply of services and provision of new services in non-metropolitan areas following the sale of the remainder of Telstra. Reliance on current regulatory mechanisms is not considered to be adequate. Users remain unconvinced that the marketplace will supply the required services and level of service in all areas of Australia. Commercial activities to date have seen too many new service offerings limited to metropolitan areas (understandably in many cases where a certain level of user base is critical for success).

In its SME E-commerce Report of July 2002 SETEL featured the need for demand aggregation activities at both regional and industry sector level. That situation still applies. SETEL supports the introduction of a program to incent regional communities to secure control over infrastructure ducting and cabling facilities to foster competitive supply of services.

SETEL will promote the following concepts:

- **National Infrastructure Duct Program** – Governments to promote (and subsidise if necessary) a national program for the installation of infrastructure ducting in all metropolitan, outer metropolitan, regional and rural communities (including country towns in excess of a population of 50 persons) to enable regional communities to take greater control over communications services of relevance and benefit to their communities.
- **National Infrastructure Cable Program** – Governments to promote (and subsidise if necessary) a national program for the installation of infrastructure cable in all metropolitan, outer metropolitan, regional and rural communities (including country towns in excess of a population of 50 persons) to enable regional communities to take greater control over communications services of relevance and benefit to their communities.

In the interim SETEL sees merit in making currently available services more accessible to potential users. For a significant number of small, micro and home-based businesses the availability of faster data services through ADSL can achieve efficiencies within their businesses and will foster the development of new applications as well as usage of a wider range of existing applications. Lack of access

to low broadband speeds (256Kbps) is a major factor in inhibiting the use of the internet for the purpose of improving business transactions and activities. SETEL proposes a process that assists businesses (and residential consumers) to ascertain the true state of accessibility to faster data services provided by ADSL. Frustration can develop when a potential ADSL customer is advised that ADSL is 'available' from the local exchange but actual connection is rendered impossible by distance of in-place technologies.

- **National Register of ADSL-enabled Exchanges** – the Commonwealth Government to maintain a register of all telephone exchanges in Australia that enable the provision of ADSL services to users in that region.
- **Area Maps to signify reach of ADSL service from exchange** - the Commonwealth Government to maintain a register of spatial and area-specific information relating to telephone exchanges in Australia that have been made ready for the provision of ADSL services to users in that region to indicate the ready availability of ADSL services in that region or area.
- **Publicly available register** (at suitable level of detail) **of existence of RIMS/Pair Gain** features- the Commonwealth Government to maintain a current register of the location of all network facilities such as RIMS & Pair Gains that affect the provision of ADSL services to users supplied by exchanges denoted as ADSL-enabled.

5. Supporting Information

Small business customers are faced with the dilemma of selecting a one-stop-shop provider for all services (perhaps with bundling discounts) and locking themselves into a long-term contract rather than 'playing the market' for a range of competitive services. In many areas there is no competition – due to lack of access or lack of willingness of competitors to invest.

SETEL contends that it is necessary to address the business or value proposition in seeking to interest small businesses in telecommunications issues. In so doing it is considered essential to include information on related matters such as e-commerce, security, privacy and domain names.

In response to the Telecommunications Service Inquiry Report SETEL advocated the need for a new consumer service to raise awareness and understanding of telecommunications products and services.

5.1 E-commerce Uptake by SMEs

SETEL, with support from small business, Telstra and Pacific Access established an SME E-commerce Roundtable/Forum process to make recommendations in relation to accelerating the uptake of e-commerce by SMEs. SETEL chaired a Task Force to progress the outcomes from the Forum and published a set of recommendations.

In response to the Telecommunications Service Inquiry Report SETEL advocated the need for a new consumer service to raise awareness and understanding of

telecommunications products and services. This was adopted by Government and the Australian Communications Authority has since developed a range of valuable Toolkits to assist users to comprehend the range of products and services on offer. SETEL endorses the philosophy of a market-based economy in which users can make informed choices on a range of products and services for their daily living or business needs. In terms of telecommunications products and services a large number of non-metropolitan businesses and residential users have little or no choice above a standard telephone service at affordable rates and, in common with the general population, continue to be confused with the complexity of the service offering of suppliers.

SETEL has made a number of submissions on these, and related, telecommunications topics in recent years. Notice is drawn to Submissions numbered 076, 075, 074, 071, 069 & 068 on the SETEL website. **SETEL Submissions**

SETEL co-ordinated a major research project on the Barriers to Uptake of e-commerce by SME's several years ago and lead a taskforce to produce a significant set of recommendations designed to overcome the barriers. Those recommendations remain applicable, for the most part, today.

In more recent times SETEL has sought to address the issue of affordable access to adequate bandwidth in non-metropolitan, rural and regional areas. Given the slow development of competition in the majority of those areas a pragmatic approach was adopted to seek, initially, a 'middleband' solution as SETEL was well aware that the economic justification for full-scale supply of broadband services (at reasonable cost) was not present. There is a need to 'raise the bar' from the designated data standard of 19,200 bps under the Internet Access Program.

The SME E-commerce Report revealed that adoption of broadband/e-commerce by SME's was contingent upon a number of factors:

- it had to meet the value proposition of the business,
- it had to be relatively easy to access, install and use,
- there had to be tangible benefits from its implementation and use and
- it should not detract from the core business activities of the enterprise.

The last point was seen to be of prime importance as the complexity of the majority of services on offer was so great that considerable expertise needed to be developed or obtained (employed) so as to be able to benefit financially from the investment decision. Even to this day there is a paucity of applications to fully justify the adoption of e-commerce by a number of smaller businesses. Furthermore the lack of adequate training and ongoing technical support, particularly in non-metropolitan areas, remains a major issue.

SETEL has been monitoring the uptake of broadband services in Australia and has continued critical comment on the tendency to misreport success levels. Recent figures reveal just over 1 million services in place. SETEL estimates that this accounts for approximately one tenth of all users in Australia - allowing for some degree of 'double counting' in relation to business (micro and home-based) and residential users.

A theme regularly followed in SETEL submissions is that the "availability" of broadband or digital data services in Australia does not necessarily equate to accessibility to residential and small, micro and home-based business users. One factor is the 'conversion' of ADSL enabled exchanges into actual supply to an end user. Out of approximately 5000 exchanges in Australia just over 1300 are ADSL-enabled but a number of these are affected by RIMS and pair gains which inhibit the supply of ADSL to the end user. Potential broadband customers are then faced with generally unacceptable alternatives such as ISDN or satellite services (and in some cases CDMA-based wireless technologies).

The recent rapid growth in uptake of broadband (ADSL) services has been mainly due to retail price-cutting by Telstra on basic services such as a 256K ADSL service with a 200Mb monthly limit. High excess usage charges apply above that low level and can impose a severe financial burden on a new business user experiencing the benefits of upgrading from a slow dial-up service. Other suppliers choke speeds after specified usage limits thus severely reducing the benefits of so-called broadband services.

SETEL is concerned that the attractiveness of current broadband packages is essentially price related and that no concept of the need for a business grade service exists to any degree. Yet businesses are being exhorted into installing broadband services for reasons of efficiency and access to new applications, and they are unlikely to experience anywhere the expected full gains with a standard residential grade service.

We have sought to address issues such as commercial viability through our comments on a new model for the Universal Service Obligation on the basis that, after seven years of 'competition' in the telecommunications industry, we still do not have an effective level of infrastructure-based competition and thus continue to fall further behind other OECD countries in adopting broadband services.

SETEL considers that State Governments can assist in the process of 'encouragement' of policies to ensure that regional Australia is able to take advantage (much earlier) of developments in communications technologies, particularly for business use and applications. Those developments can lessen the technology and information gaps between regional/rural users and their city counterparts and assist in regional development aims. Currently the Commonwealth Government is 'hindered' by its ongoing need to reach an adequate 'strike price' for the sale of the remainder of Telstra and its reliance upon light - touch regulation in a market where effective competition has not yet developed.

Small businesses and most residential users in non-metropolitan areas have been awaiting the availability of promised advanced telecommunications services for a decade. Subsidy schemes have provided a glimmer of hope and have improved availability albeit at a slower than expected rate. New market entrants continue to 'cherry pick' in areas of proven demand and Telstra's CAN remains as the sole mode of access for many suppliers and users. Disruptive technologies, including wireless services, continue to show promise but supply has not yet reached the critical mass to appeal to the value proposition of the majority of users. So effective choice remains largely unavailable.

Unless initiative is shown by policy makers excessive reliance will be placed on conservative commercial practices to provide upgraded services. If a national vision cannot be achieved perhaps innovative State Governments can set the tone by facilitating the rollout of broadband services to enrich regional communities. Care must be taken to avoid the 'silo mentality' of restricting high capacity broadband services to key government institutions such as those in the health and education sectors. All potential users, both business and residential, must be able to leverage off high capacity broadband access services and infrastructure provided to the key users in any regional centre or area.

SETEL sees a need for local government to co-ordinate representation in conjunction with State government services and local business groups to facilitate provision of infrastructure and supply of suitable services so that demand aggregation can achieve economies of scale from ongoing (and growing) usage.

5.2 How to future-proof Universal Service?

SETEL considers the USO to be outdated in its current form. But there remains a need for such a scheme. Targeting the 'lowest common denominator' is no longer suitable. There is a need to raise the benchmark. The situation will intensify and the need will become greater post T3.

There are fears that a fully privatised Telstra will reduce or fail to maintain services in non-profitable areas. In any commercial market suppliers will not enter into supply arrangements where the cost of provision outweighs the revenue obtained. So it is likely that, in the absence of a USO arrangement, no carrier or CSP would opt for a commercial decision to supply services in non-profitable areas.

As the current Universal Service supplier, all the focus is on Telstra to maintain and upgrade supply. In an open market all suppliers would take advantage of opportunities to 'cherry pick' and thus effectively deny service to selected areas.

Two fundamental issues for Small, micro and home-based businesses

1. Majority of national telecommunications network delivering services to small business and residential consumers is based on a "standard telephone service"

Rated at 3500 bps for analogue voice + a 'ramp-up' to 19200 bps under the Internet Access Program. This is certainly not fast enough for business data use.

Most current consumer safeguards centre on this standard service – customer service guarantee, universal service obligation, untimed local call areas. A DDSO – digital data service obligation does exist – but at considerable cost (in time and money) to users or potential users.

There is a significant amount of vastly under-utilised broadband infrastructure available in Australia but its effective use is constrained largely by access issues and problems. ADSL rollout and availability are improving yet uptake is lagging. What are the main factors?

2. Small, micro and home-based business consumers are not yet convinced that a “value proposition” exists for broadband or medium band services.

The complexity in the telecommunications marketplace is excessive from a consumer perspective. A preponderance of ‘plans’ and offers generally creates confusion rather than offer realistic choice. Education & training can address this issue from a small business perspective but the users need to be convinced of the value of their investment in both time and money. To date there are insufficient applications available to convince many small businesses that it is worthwhile to progress to the next step in the e-commerce journey.

These factors contribute to the existence of the digital divide and a digital ceiling. Availability of the technology is not the only issue – accessibility, affordability and utility affect decision-making.

At present the focus is on placing requirements on the market to deliver higher grade and speed services. Setel believes that all three tiers of government can play a leadership role in promoting the rollout and use of higher speed telecommunications services by providing subsidies whilst facilitating the more effective distribution & utilisation of their own services to the public at large, right throughout the nation.

Commercial imperatives will operate to ensure that ubiquitous high-speed services are not made available to all Australians at reasonable prices – or prices commensurate with expected usage and benefits.

USO - SETEL views

The current USO focus on a single carrier has resulted in a slow and patchy rollout of new technologies.

Inefficiencies

SETEL is concerned about the considerable amounts of time and money devoted to the very complex process of assessing, administering and defending the USO, by the government, business and community sectors. We note that this expenditure and diversion of resources affects Government, the Australian Communications Authority, a number of carriers supplying eligible services, legal advisers, consultants and consumer groups so the true cost of the regime is significantly wider than the ‘announced’ cost of the scheme.

Cross Subsidisation

SETEL is concerned about the extensive cross subsidisation in the telecommunications market that contributes a detriment to residential and small business users. The designated USO provider operates in both the general market and the eligible revenue market. A number of carriers and Carriage Service Providers (CSPs) provide services to corporate and government clients at price levels based on infrastructure costs that do not include operation of a PSTN or public Customer Access Network (CAN).

The providers of eligible services (to residential and small business consumers) are obliged to factor into their pricing models the cost of operating or accessing the CAN and this, when taken in the context of supplying competitive services to those provided by non-eligible revenue carriers and CSPs, can be considered to result in a degree of cross subsidisation favouring the corporate and government customer.

SETEL contends that the major proportion of the eligible revenue related cost is borne by the residential and small business markets in terms of higher prices to the detriment of consumers in these markets.

State Government Network Development (Silo Problem)

There is evidence of substantial involvement by State and local Governments in developing broadband infrastructure and connection to selected government instrumentalities and premises (schools, hospitals, libraries, community tele-centres) without making those services available to general residential and small business consumer market segment use. A number of Federal Government programs are supporting this process by concentrating diversion of subsidy funding into services for the health and education sectors – heavily biased toward State Government interests.

If the residential, small business and general business communities cannot leverage off these infrastructure improvements for the long awaited supply of faster data services (including broadband) then more emphasis is placed on the competitive marketplace (where it in fact exists) or the designated USO provider to apply the infrastructure investment necessary to upgrade the communications services to a level similar to that available to those in metropolitan areas.

SETEL notes that the lack of widespread competition in areas other than central business districts (CBDs) has also limited the access of a significant number of residential and small business users to higher speed data services (now becoming accepted as a 'basic' for Australians).

A continuation of the split model of infrastructure rollout (favouring government programs and interests) renders more urgent the need to review the effectiveness of the USO in terms of its limitation to the Standard Telephone Service. Segregated infrastructure access will create different classes of user and not take advantage of the economies of scale available from a sharing of resources. Full community involvement is essential to stimulate demand and to render, in many situations, the provision of higher data speed services commercially viable. The creation of a "digital ceiling" should not be permitted to disadvantage opportunities for access to faster data services by non-metropolitan, rural and remote users.

Need for Policy Upgrade – Extension to Consumer Safeguards

SETEL notes that the RTI found "that the universal service regime is not an effective mechanism for providing broad consumer access to a range of services in the future" and strongly supports this finding.

SETEL, in representing the e-commerce and telecommunications interests of small, micro and home-based businesses in Australia, considers that the concept of a Standard Telephone Service (STS) is of significantly diminished relevance to these

classes of business as it restricts the elements of protection to basic voice and fax services. Improvements have been experienced in wireless (mainly mobile) voice services but businesses today are placing greater reliance on efficient data services to conduct business operations. Retention of the STS as the basis for the USO and CSG results in these important consumer safeguards providing substantially less benefit to the SME sector.

However, SETEL supports the continuation of a form of USO for telecommunications services, but at a higher level of achievable data speed, more relevant to the current and growing needs of most residential and small business users in Australia. There is growing volume of support from both Government and industry for broadband services to become the accepted norm for Australian users.

Admittedly not all users will be able to afford or choose to utilise higher speed services and an effective program must be maintained to support those with recognised disadvantages, including the inability to pay for more-than-basic services.

SETEL's *Bootstrapping to Broadband* concept sought to maximise the benefits available through Telstra's ISDN facilities to be able to provide a reasonable grade of data speed, combined with a quality voice service, to all those currently connected to the PSTN. Economies of scale should operate to stabilise or even lower costs of access and usage for some classes of residential user.

USO Funding

A new model requires involvement in, and potential contributions to, the USO by Commonwealth, State and local governments, in particular in relation to the benefits to regional development programs and delivery mechanisms for government services to the public (including business). This will enable alternative approaches to the funding of the USO and DDSO (rather than directly by carriers and carriage service providers) to be considered.

Increasingly State and local governments are seeking to deliver community services (and require access to their own services) electronically, to maximise dissemination and to gain from cost efficiencies. These services can play a major role in invigorating regional communities, enabling them to gain access to a wide range of information and services previously restricted mainly to metropolitan residents.

SETEL believes that principal responsibility for 'funding' the USO should not necessarily rest with participants in the telecommunications industry as many others (State and local government bodies included) have a vested interest in seeking to remove the "old economy" tag, now burdening Australia in the global marketplace, by enabling increased participation in the nations' commerce by residential and small business consumers in non-metropolitan areas.

In SETEL's view, Budget funding for the USO is superior to other options as it:

- is likely to promote a more competitive and efficient industry, more responsive to the needs of Australian telecommunications users, notably small business people;

- provides measures of transparency, accountability and equity, absent under current funding arrangements;
- ensures competitive neutrality between USO providers;
- provides scope for the management and targeting of the USO subsidy to those who meet "eligibility" criteria;
- should lead to an increase in Budget revenues;
- ensures that USO subsidies (one form of welfare and assistance funding) are subject to annual review, and competitive Budget processes against other programs thus leading to a more equitable distribution of such funding in general and USO funding in particular; and
- minimises regulatory intervention, market distortions and regulatory costs.

As mentioned above, SETEL is increasingly concerned that the State Governments are moving away from this model by being permitted, and even encouraged, to invest in or support their own infrastructure development – exclusively for their own use. This is a disquieting trend.

Universal Service Obligation & Customer Service Guarantee Issues

SETEL recommends that:

- Cognisance be taken of the extensive involvement in, and potential contributions to, the USO by state and local governments, in particular in relation to the benefits to regional development programs and delivery mechanisms for government services to the public (including business) so that alternative approaches to the funding of the USO and DDSO (rather than directly by carriers and carriage service providers) can be considered.
- Mechanisms or incentives be provided to enable carriers and carriage service providers to meet unmet needs in relation to voice and data services, of far higher standards than currently being provided under the USO, throughout much of Australia. (SETEL suggests that gains derived from the sale of spectrum could be used to fund such incentives.)

SETEL seeks higher bandwidth services suitable for business-to-business e-commerce, business-to-government communications and reasonable speed data transmission being accessible, affordable and easy to use by small businesses.

An Alternative Funding Scenario (much less preferable!)

If a decision is made to retain the USO largely in its current form, requiring contributions from carriers and CSPs to the USO fund, SETEL submits that consideration be given to extending the requirement to contribute to all carriers and CSPs. The key beneficiaries of the USO (residential and small business users) are those who stand to be disadvantaged by cross subsidisation in favour of Business and Government customers.

By increasing the scope for revenue contributions from other industry participants, (as part of a carrier licence program), less financial pressure would be placed on current (and future) eligible services providers (providing services to the small business and residential segments of the market) thus stimulating the likelihood of broader competitive supply and the potential for offering additional and innovative services. Such a funding process may contribute to the upgrading of the basic, Standard Telephone Service to the majority of non-metropolitan, rural and remote users.

6. Summary

SETEL welcomes the Senate Committee Process scrutiny of this Bill but seeks consideration of those small, micro and home-based businesses and residential consumers who are located between CBD areas and the start of the regional areas and are unable to gain access to adequate medium-high-speed data services suitable to meet their needs derived from expectations of being able to experience services available to their city 'cousins'. SETEL's views are predicated on the basis that economies of scale can be obtained from far wider provision of improved services. We feel that commercial decision making impedes broader rollout of desired infrastructure and thus an updated USO mechanism, combined with appropriate subsidy schemes and legislative/regulatory controls, will deliver much needed competition in non or low profitable areas and thus provide ubiquity of service at a much higher level.

In essence the scope of the review process is therefore too narrow and needs to be broadened. The concept is fine but the current application is wanting. We want an opportunity to deliver equal levels of communications service throughout the country. This review process can contribute to this aim if it not constrained by a narrow focus.

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