**Speech**

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# NSW Country Press Association

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## Connecting a competitive Australia

Optus is proud to sponsor the 106th Annual NSW Country Press Association Conference.

Our participation today reflects the growing importance the rural and regional market plays in our business.

We admire the work that you do in providing communications services in country New South Wales.

As we expand our presence into rural and regional Australia, Optus also has a great deal to learn from your sector. You are running successful communications businesses, delivering content to your communities, and overcoming the challenges of long distances and low population densities.

Today I want to give you Optus' perspective on the issues involved in delivering more and better telecommunications services into rural and regional Australia.

My starting point is that, as the availability of sophisticated communications tools rises, we all have an increasing dependence on those tools.

In just over 100 years, the growing availability of broadband has meant we can all be instantly connected to a near limitless pool of information.

What is more, with the right infrastructure, people in rural Australia can get exactly the same information, just as quickly, as people in metropolitan Australia.

Of course, if you do not have the right infrastructure, you face the frustration of being unable to send even the most basic email, let along meet copy deadlines.

Things are far from perfect, but some good progress been made.

What is more, we are potentially on the cusp of some major breakthroughs. The Government has announced its $600 million Broadband Connect Program, which aims to stimulate the deployment of competitive telco infrastructure to drive the take

up of broadband services in rural and regional Australia at metropolitan comparable prices.

Today I want to do three things in my comments to you. Firstly, I want to explain Optus' substantial and growing commitment to rural and regional Australia.

Secondly, I want to talk about some of the enduring policy challenges in stimulating competitive telecommunications in rural Australia. Thirdly, I want to give Optus' perspective on the new Broadband Connect Program – and give you a sense of what we think this program could spark.

Optus' Commitment to Rural and Regional Australia

Let me turn first, then, to talk about the substantial presence which Optus already has in rural and regional Australia.

Optus has a strong network and customer base outside metropolitan Australia.

One important product for us in rural and regional Australia is broadband.

Let me explain some specific ways in which we are providing broadband in rural and regional Australia.

Optus is building our own DSL network across Australia. What we do is install our own electronic equipment, a DSL access multiplexer or DSLAM, into the Telstra exchange, and then connect that exchange back into our network using optical fibre. That allows us to deliver our own services to customers within a four or five kilometre radius of that exchange.

Under arrangements we have made with State Governments, in several states we have installed DSLAMs in a range of country towns. Indeed, we now have 71 such facilities installed across Victoria and Queensland, and this is a model we think could work jus as well in New South Wales as well.

In Victoria and Queensland, we supply over 20,000 customers with business grade DSL using these facilities.

The second way in which we are supplying rural and regional broadband services is via direct to home satellite, funded under the Government's Broadband Connect program.

The scheme was established to provide a per customer subsidy as an incentive for suppliers to deliver higher bandwidth services to rural and regional Australia at metro comparable prices.

Optus has helped to connect over 13,000 broadband customers in rural and regional Australia under this scheme through our own retail channel, Optus Direct and through four wholesale providers: BorderNet; ClearNetworks; DragNet; and Harbour IT.

Our model of partnering with local ISPs to deliver broadband services under this program has been key to our success.

It has created local business opportunities and employment growth in the rural and regional areas where our wholesalers operate.

Thirdly, Optus is a major provider of broadband internet services via satellite to school students in rural New South Wales, Western Australia and the Northern Territory. We currently provide broadband services to 500 schools and homesteads.

Let me pause for a moment to explain the importance of Optus' satellite services in rural and remote Australia.

I have just talked about two different types of broadband services we provide over satellite.

The Optus satellites also carry both free to air and subscription television into rural and remote Australia. The Optus C1 satellite carries Austar's signals to its customer base of over half a million rural and regional users.

And we contribute to the delivery of free to air television services in remote Australia. We supply by satellite:

- 600 retransmission sites operated by the free to air broadcasters;

- 60,000 free to air direct to home remote area broadcast customers, and 10,000 business TV customers; and

- 655 free to air self help transmission sites.

We are very proud of our position as Australia's specialist satellite operator. Satellite technology is ideally suited to this wide brown land.

Satellite communications costs the same whether you are in the city or in very remote areas - making it the preferred technology across the very large parts of Australia where population density is low.

Optus has continued to invest in this critical area of national expertise, and indeed just a week and a half ago our latest satellite, the Optus D1, was launched. The Optus D2 satellite will join it next year. The total expenditure on these two satellites is around $400 million.

But it is an investment we are pleased to make, because we believe it is very much in Australia's interest that there is an Australian-based satellite operator, and we have the specialist technical expertise in Australia to deliver this vital technology.

The other very important area I need to speak about is Optus' commitment to expanding its GSM mobile network further and further into rural Australia.

Optus has invested over $3 billion in its mobile networks.

Our 2G network covers 650,000 square kilometres or 96% of the Australian population, with around 30% of our mobile network located in rural and regional areas.

Optus serves 6.5 million mobile customers, representing approximately 32.5% market share.

Our rural sales channels have also expanded.

You can now purchase Optus products and services at over 140 locations outside metropolitan centres.

The Policy Challenge

Clearly, we all want to see strong competition in telecommunications in rural Australia – so that customers can enjoy the lower prices, greater innovation and better customer service that competition brings.  Bt there is a difficulty which is hard to overlook.

The per customer economics are much more challenging in low population areas.

As newspaper operators, you would be well aware of similar challenges which differentiate your economics from those of metropolitan newspapers.

This economic reality adds an additional complicating factor for any telco contemplating entry into a new rural market.

The fact is, building new telecommunications networks is challenging even in cities.

The challenge is even greater in rural areas with lower population density.  It is compounded by the fact that the incumbent is

desperate to retain its monopoly position in delivering telco services to the bush – and has been able to use taxpayer funds to help it achieve its goal.

The reality is that you need to be a competitor of scale if you are going to bring real price and service competition in the bush.

A good example of the impact competition can have is a 'before and after competition' analysis of the monthly backhaul costs of broadband services in country towns.

You can think of backhaul as the high bandwidth arteries of a broadband network. Backhaul is provided by technologies such as optic fibre, satellite or microwave links.

Local broadband providers in country towns have been unable to provide their customers with affordable broadband services – because they are forced to pay very high backhaul charges to the incumbent monopolist. If you want backhaul, there is only one provider – and the price is very steep.

This was an issue acknowledged by the National Party's Page Research Centre in a report they released on rural telecoms in March 2005.

The report stated that:

"The cost of infrastructure tends to make competition in non metropolitan areas difficult. A major cost to service providers is the backhaul…in many cases the service provider must seek access to Telstra's infrastructure".

At Optus, we've always been amazed at how the market price for backhaul drops whenever we build a new transmission link and suddenly there is no longer a monopoly.

For example, the cost of backhaul on routes from Adelaide to Darwin, from Melbourne to Mildura and from Brisbane to Townsville were reduced by an average of 47% after competition was introduced – or in some cases merely threatened - on these routes.

So, what would a 47% reduction in backhaul pricing mean for a local ISP in a country town?

In Swan Hill, it would mean paying $23 instead of $33 for monthly backhaul charges.

In the New South Wales town of Scone, access to competitive backhaul would see monthly charges reduce from $12 to $8 per month.

And for the local ISP in Mt Isa in Queensland, access to competitively priced backhaul would reduce its monthly wholesale access costs from $55 to $38.

When you are talking about typical monthly retail prices in the $30 to $50 range, it is clear that these kinds of reductions in input costs can make a big difference.

What these examples show is that competition can remove the stranglehold the incumbent currently has on the provision of backhaul services.

This in turn will reduce retail broadband prices and support the entry and sustainability of multiple broadband providers in rural and regional areas.

Broadband Connect

Which brings me to my third area for discussion today – the importance of Government funding programs such as Broadband Connect.

Broadband Connect has the potential to stimulate the build of infrastructure - such as competitive backhaul.

The new approach offers a genuine opportunity to change the market structure for telco services in rural and regional Australia.

And it won't be a short lived achievement that ends when your latest Nokia handset or new wireless Hewlett Packard lap top are superseded.

A new market structure can deliver sustainably competitive telco services, lower prices, more innovation and new services.

The Government's stated focus on a small number of large scale projects is the right approach.

It is 'breakthrough' thinking.

It is particularly pleasing that the Government has learned from some design flaws in earlier rounds of rural telecommunications funding.

In the past, the Government has directed its resources to a large number of small scale projects that weren't too successful.

Many of the small scale ventures that received Government support failed once funding was withdrawn.

Past schemes also favoured the incumbent.

In other words, Government funding tended to reinforce the market dominance of the incumbent – rather than unleashing the forces of competition.

Telstra's own figures show that it has received $400 million of Government funding in the last 10 years.  At Optus we frankly suspect the number is even higher.

It is disappointing that Telstra's Government funded infrastructure is not provided to other access seekers on a wholesale basis.  For example, Telstra has consistently refused to provide roaming onto its GSM base stations which were built under a Government funding program – even though the terms of the program say that it is required to do so.

But I am pleased to say that with Broadband Connect, the Government has re-examined its approach – and taken some bold new steps in the right direction.

As I have mentioned, there is a stated focus on a small number of large scale infrastructure projects.

In addition, the Government is also mandating wholesale access, on fair and reasonable terms, to all infrastructure constructed under the program.

Optus has publicly welcomed the Government's new approach and considers it is strategically astute for a number of reasons.

We think the lessons of experience are clear – taxpayers get better outcomes from funding scale programs than from allocating funds to multitude of small projects.

We also think that mandated wholesale access has the potential to unleash innovation and choice in the delivery of broadband and other telco services.

Let me emphasise therefore that Optus is very happy to agree to wholesale access arrangements for any infrastructure we build under Broadband Connect.

It is consistent with our long standing practice of providing open wholesale access arrangements that support the wider industry, in the mobile and satellite markets.

Our major competitor has a very different view. It wants to vacuum up this funding to build new networks – while refusing to provide access to those networks to any other party.

Let me turn to Optus' plans for Broadband Connect.

You will appreciate that until our funding application is finalised and lodged, there are limits on what I am able to say.

But I can assure you that Optus is extremely committed to putting in a very serious and credible proposition - which would substantially increase our network presence in rural and regional Australia, and offer a step change in the degree of competitive choice available to broadband users across Australia.

We have already announced that we are working with the respected rural trading house Elders in developing a joint application for funding, which if successful would see Optus and Elders work together to build infrastructure to deliver high bandwidth services in rural and regional Australia.

Let me also announce that a significant element of Optus' approach to our Broadband Connect proposal will be designed to break down the tyranny of extortionate backhaul prices charged by the incumbent. We will be proposing significant additional backhaul build, so that in a large number of country towns there will be an alternative provider of carriage.

By having the capacity to deliver more cost effective backhaul, Optus will be better placed to offer retail broadband services at

competitive prices in the rural and regional areas that we plan to serve.

But it will also put us in a position to offer competitively priced backhaul services to other customers.  These might be local ISPs or a wide range of other customers – be they a Government department, a large business user, or one of our retail competitors in the telecommunications market.

In this way, the benefits of competitive pricing will cascade into the wider marketplace – to the benefit of all telecommunications users.

As I have mentioned, Optus is committed to providing wholesale services, we have a strong track record of doing so, and we are fully aligned with the Government's objectives on this point.

Conclusion

I hope that today I have demonstrated that Optus has driven its network and service offerings a long way into rural Australia. We have a track record in delivering tangible outcomes, in terms of price, service and product innovation.

However the economic conditions in rural Australia are undoubtedly more challenging than in metro Australia.  This is

one reason why we think that the Government's logic in designing its Broadband Connect infrastructure funding scheme is very sound.

Optus is working very hard to develop a compelling proposition in response to the Government's stated intention to fund a small number of large infrastructure proposals.

We see it as an important opportunity to further our mission of bringing competitive telecommunications services to all Australians.

We believe that if the Broadband Connect program achieves its objectives, it can deliver a step change in rural and regional telecommunications in Australia. We aim to be part of that step change.

Thank you.