



FINAL

**Paul O'Sullivan, Optus Chief Executive
Committee for Economic Development Australia**

**Leveraging the National Broadband Network to
deliver Australia 3.0**

1 December 2009

Introduction

It is a pleasure to be at CEDA today, an organisation that has been at the forefront of debate in the area of technology and economics for many decades.

I understand that the beach-going Tony Abbott was key note speaker at a CEDA function last night. He's a man I share a common passion with for swimming and water sports.

His surprising exposure via the media in recent days led my staff to give me earnest counsel about appropriate attire today.

I was told that swimmers and towel would simply not do. And that a suit and tie was very highly recommended given there may

be photographers amongst us. I heeded the advice of my staff – for my own good and yours.

Over the last three years Optus has unexpectedly found itself front and centre on the National stage.

On the one hand Optus is a major corporation with over \$8-9 billion in annual sales and is a major investor in Australia.

Let me give you a snap shot of our financial commitment.

Since 2000, Optus has invested almost \$11 billion in Australian infrastructure.

And to set the record straight, we've been investing a higher percentage of our profits than our nearest competitor has ...

... and significantly in regional Australia.

Our \$800+ million investment to extend our 3G mobile network is benefiting many including rural and regional communities and we've just hit the milestone of reaching 97 per cent of the Australian population with our own mobile network.

And I am very pleased to announce today that Optus is investing another \$25 million to upgrade our (HFC) cable network in

Brisbane, Melbourne and Sydney to be capable of speeds of up to 100 Mbps that will rival the best in the world.

So on the one hand, Optus is taking the fight to the incumbent Telstra and is the second largest telco in Australia.

And on the other hand, as well as serving our own customers, we have frequently become the voice of the “rest of the industry” - arguing for a fair go for both the smaller industry players as well as for small business and Australian consumers.

I never thought for a moment when I became CEO of Optus five years ago that such a significant amount of my time would be invested in arguing for the interests of Australian business and consumers in telecommunications.

I’m not going to claim exclusivity for us on this – but quite frankly, the debate on the National Broadband Network is do or die for competition in fixed telecommunications. So it’s not been hard to take a pro-consumer and pro-competition stance.

But I am concerned that so much of the debate continues to be stuck as politicians argue and Telstra capitalises on this to encourage further delay.

So my message today is simply this:

Let's pass the legislation quickly and let's build Australia's NBN now!

We must focus on building Australia's productivity and competitiveness through broadband and making sure we have good solid jobs and a strong social fabric for the next decade and beyond.

To move us on, I will start by describing the four 'mega-trends' sweeping the global communications industry right now. I will demonstrate that these trends eventually create a two tier world – and that Australia has an opportunity to join the world's advanced economies in communications or get left behind.

Then, I will return to the NBN and the vital importance of the telecommunications reform legislation that we now expect to be reintroduced into the Senate early next year.

It's time to stop the politics and get on with building the NBN!

The “Megatrends” driving the telecommunications industry

Right now the telecommunications industry is going through a major revolution that will radically change how we communicate with one another.

The **first megatrend** is the explosion in bandwidth that is happening in all the major communications technologies.

Mobile phone networks have increased their bandwidth and speed exponentially in the last five years.

For example at Optus we have upgraded our Mobile network to deliver peak data speeds today of up to 7.2 MBPS – that’s nearly 20 times faster than in 2005.

To cater for these faster speeds – like many operators – we have also been doing a massive upgrade in backhaul capacity from our mobile sites.

This equates to on average a 6-fold upgrade in mobile network capacity over just two years.

As the next chart shows you, the amount of data traffic being carried on our mobile network has likewise taken off.

But “you ain’t seen nothing yet” because this megatrend has another big wave coming.

Over the next year Optus and its sister companies across Asia, who combined have more than 250 million mobile customers, will be among the first operators in the World to trial Long Term Evolution technology – also known as LTE.

LTE is expected to deliver peak speeds of up to 340 MBPS or over 1,200 times faster than what we could offer on the network in 2005.

The **second megatrend** is the increasing processing power of handheld or smart devices and the associated revolution in how information is presented on touch screens.

For example the Apple iPhone has processing capacity equivalent to the average PC of five years ago.

Over the next few years, the processing power of these devices will continue to explode. Indeed when Optus recently previewed the 2010 range of handsets we saw many manufacturers imitating, and indeed evolving the iPhone functionality even further.

The **third megatrend** is government policy around the world focussing on upgrading national fixed line networks to create 21st century high speed broadband highways.

Already Sweden, Finland, Japan, Korea, the Netherlands, Singapore and New Zealand have committed to drive NBN rollouts.

Typically these national networks will deliver a major increase in bandwidth to the average home and SMEs.

In Australia this increase will take you from 12MBPS today (if you are one of the few people lucky enough to live near an exchange) to 100 MBPS which will be accessible by 90 per cent of Australian premises.

And that's just a start; by taking fibre right to the home or office there is a future roadmap to 1GBPS and beyond.

These three megatrends combined are driving a **fourth**: one that is shifting the whole approach to delivering communications.

This exponential explosion in bandwidth allied with much smarter devices, means that we will all be able to access intelligent computer applications hosted centrally – in large data centres - wherever we are.

The IT industry has christened this new phenomenon “The Cloud”, but that is really just adding mystique to a very simple and practical service.

The impact of this will exceed what the creation of the mobile phone did for us.

We will share access to amazingly powerful computer applications that are updated in real time and track global and

local events in ways individuals could never have afforded by themselves or dreamed of previously.

Our collective spend and ability to access these applications makes this possible.

We will benefit from the ‘wisdom of many’ and the “intelligence” created by all the users of those platforms.

An example today is Google – where you benefit from the millions before you who have searched for a key word and this has identified the most appropriate sites for you.

In a fundamental way, these changes have major consequences for business, for government and for consumers.

Countries with well developed mobile and fixed networks are already moving very quickly to enable these capabilities.

Businesses are already capitalising on the productivity gains offered by the technology.

The efficiency and productivity of these countries will move ahead of competitors.

The world will again diverge – between those countries with the ‘will’ to invest and reap the productivity and efficiency gains of

the new “megatrends” world – and those that can’t afford it or just can’t get their act together to build it.

One question you might ask is: if mobile speeds are increasing and mobile devices are becoming more powerful – does the Australian Government need to spend billions on a new fixed line broadband network?

The answer is simple – the demand for speed and bandwidth is insatiable and exponential.

And, for the foreseeable future, fibre networks will remain a very significant step ahead of mobile networks in terms of capacity and economics for very high volume traffic.

Australia: Participant or Observer?

My last point today is that the decisions being made now in Australia will decide whether we join this new world and reap the considerable benefits – or do we watch it all from the sidelines.

Right now, a key piece of legislation that would reform our industry is in a hiatus – held over until at least February 2010.

It was meant to be passed before Christmas, but got caught up in the politics and delay surrounding the ETS.

In the last few weeks many pro-Telstra supporters have argued publicly that this delay is a good thing. Some even argued that the legislation is unnecessary.

You may have already heard me speak publicly about why we need this reform in our industry – and it's encouraging to see that the Government has now moved to enable it.

This reform has two key components -

1. The reform of the current fixed line market by forcing some form of separation between Telstra and the local loop;
2. The establishment of a program and funding for a new NBN. This new network would likely be at scale within three years and would not be allowed to be controlled by any retail [competitor].

Those who consider the delay to the first Bill a good thing or mistakenly believe that the reform is unnecessary are ignoring the key reasons why it must be passed.

Let me be really clear, the telecommunications reform legislation will deliver four game changing outcomes:

- (1) It will remove the fundamental conflict of interest that exists for Telstra providing access to its monopoly

infrastructure to its competitors, whilst continuing to compete in the retail market against the same players. This reform will level the playing field and transform fixed line competition today before the NBN even starts to be rolled out.

- (2) It will allow Telstra's Board and Management to move on. There will be no incentive defending the 60 per cent plus margins that it makes in fixed-line services. That game will be over. Instead they can focus their efforts and resources on building the new world.
- (3) It will provide incentives for all industry players in growing the broadband market now – knowing they will have a level playing field to keep evolving the services provided to their customers into the future.
- (4) It will make sure that Parliament sets the parameters for any deal done by Telstra with the Government on the NBN. Telstra must not be allowed to do a back room deal free from transparency and accountability and without Parliamentary oversight. In addition, any changes to the regulatory regime must be reviewed and approved by the ACCC.

The Impact on Telstra and its Shareholders

Much debate and teeth-gnashing has occurred over the potential impact these reforms will have on Telstra and its shareholders.

I have even heard respected commentators wonder whether it sets a dangerous precedent for government interfering with the ownership of other companies' assets.

There's a lot of misunderstanding on this issue. Telstra's relationship to its fixed line assets is not the same as a normal company.

Much of the copper local loop network was built over decades with taxpayers funds.

It is the only connection point to over 90 percent of Australian homes and businesses.

The High Court in a landmark judgement last year confirmed the unusual nature of Telstra's relationship to this asset when it rejected Telstra's attempts to overturn the access regime on constitutional grounds.

When Telstra was created in 1992 the Telecommunications Act had as its core purpose the creation of competition in telecommunications.

Telstra was given substantial fixed network assets, which had been paid for by Australian taxpayers, on the understanding from Day One that Telstra would also be required to make those assets available to other players and competitors.

But as history shows, Telstra has fought heavily and flaunted that Act for many years.

As a result, the separation of Telstra has been debated over many, many years. Its major shareholders are simply not in a position to express great surprise that separation is now on the cards.

Regardless, is this cause for concern justified?

The experience of British Telecom (BT) is instructive. In 2005 BT agreed with the regulator to functionally separate. In terms of the impact on the company, a senior BT executive said:

“BT itself has not been hampered or harmed in its own performance.”¹

In terms of the impact on the competitive environment, this is what BT’s Chief Executive had to say:

"The UK now has the most diverse, competitive and vibrant communications market in the world...Six years ago,

¹ Senate Select Committee on National Broadband Network, Wednesday 4 March 2009, page 3

broadband take-up was probably on par with Albania. Today it has higher take-up than Spain, Germany, France and Italy...[and] it's also higher than Japan and the US....We've also got some of the lowest prices in the world. And there are 200 different companies you can get broadband from in the UK -- everyone from Arsenal Football Club to Z Internet -- and that shows the vibrancy of the market."²

Telstra's share price since the Government's separation announcement has not demonstrated Armageddon for its shareholders.

Let me show you the following slide.

The majority of analysts retained their "Buy" recommendations on the Telstra stock and predicted share price accretion over the following 12 months as the reforms are implemented.

And as the slide shows in the month that followed Telstra has been the subject of much speculation but has not seen any major re-rating of its share price.

² British Telecom, CEO Ian Livingston – The Australian, 7 July 2008 "BT rebuffs Telstra on anti-separation:

NBN – What the Future Holds

In conclusion, let me summarise how we can unlock Australia's NBN future.

Firstly, we must get on with the job of building an NBN, that is truly a wholesale only, open access network, with equivalent price and terms for all retail access seekers, and with no one retail telephone company controlling the network.

Secondly, we must see the telco reform legislation passed in February. This is the only way to break Telstra's stranglehold on the market and improve competition immediately.

It's time to stop what has become a four year debate on an NBN³ for Australia – and time move everybody on.

Today I have outlined why Australia needs a truly competitive broadband market with a modern, world class broadband network.

The NBN will ensure our strong economy and great nation can take advantage of the megatrends sweeping through communications and keep up with the world's advanced economies.

³ Telstra ASX announcement September 2005

We have the chance here to be an active participant rather than a passive observer.

I urge all sides of politics to enjoy a restful and reinvigorating break over Christmas and the New Year.

I call on them to return in February, with sleeves rolled up, refreshed and ready to push through this game changing legislation.

Let's pass this vital legislation quickly and get cracking on building the NBN.

Australia's future depends on it. Your future depends on it.

Thank you.