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Good afternoon and thank you for the opportunity to speak today.

It's a great pleasure to be able to make it to this event and to speak to so many of the industry's leading journalists at the same time.

I wanted to come along and see you all today as we are in a very important stage of the telecoms industry.

I go back a very long way in the industry, right back to the mid 90s. In fact I have been around for so long that I even remember the launch of GSM. Because I have come along a way on the journey, I know just how long and hard we've fought to get to the position we're in now.

We may take competition for granted but it's not really that long ago that we were debating the unbundling of the local loop, which has since led to the whole explosion in broadband services. It's also not that long ago that we had to negotiate carrier interconnect for SMS. Yet today it is very easy for us to sit back and relax and take competition for granted.

I'm here today to talk about competition and what it means. I generally don't have a high media profile as I think our recent financial results speak for themselves.

But I do come out when I feel that competition is at risk – particularly four years ago when Telstra and its management team were looking to take actions that would have locked up competition in the industry – this led to the formation of the G9, later Terria, an industry wide body to lobby for competition. So competition is what I want to talk about and why I'm here today.

As the fourth estate, you have a critical role to play in the competition and NBN debate. One of my concerns is that at a critical time in the industry the debate is being shrunk. It's been shrunk because it has been appearing in the general news and written as part of a political debate. This means that many of the issues that Australians need to hear and discuss are not being put in front of them.

As the leading tech experts in the media you have a critical role to play to help ensure that the debate around competition is re-opened and the real issues are heard.

As we face one of the biggest changes in our industry, the debate has been shrunk to whether the NBN should be built. I think we can all safely assume that the NBN will most certainly be built, so I want your help to re-open up the debate on four important issues.

- Firstly, we need to revisit a very fundamental point that competition really matters in telecommunications
- Secondly, to ensure competition is protected, we need a much greater level of transparency around the deals that are being done by the NBN Co, government and third parties
- Thirdly, I want to enlist your help to ensure we have a proper discussion about the new monopoly that is being created by the NBN Co and I am going to talk about some specific things to ensure that it is kept in check
- Finally, I want to touch on something that we rarely talk about as there are other trends that may be shrinking competition so I'm hoping to have a real debate about the applications and content layer

## **Why Competition Matters**

So let me start by talking about where we stand today. Despite a lot of denial, the reality is that we are on the edge of the roll-out of the national broadband network.

The NBN will have many benefits to Australians such as delivering a break-through in educational learning, health and medicine, entertainment and workplace productivity. I'll go further - and I'm sure most people will agree with me – that actually the real strength of the NBN is not any one of these applications, but the fact that there is going to be an explosion in the range of applications that are delivered simultaneously to Australians everywhere.

But there's another very important consequence of the NBN. As you gather here today, you are gathering in a way that no group of technology media specialists has ever gathered before in Australia.

We are on the edge of the biggest change in our sector since the birth of competition in 1992. We are about to see a massive change in the way that the industry operates as well as a change in the way that consumers are serviced by the industry.

As we think about the new world we are entering into, the discussion that needs to take place is how we get it right. And the first thing about getting it right is to ensure that it has competition.

Competition is one of those words that we all take for granted. It's very easy to forget it when you have it, but as I mentioned in the beginning there are a lot of us who have the scars of having to fight so hard to get the limited amount of competition we have in the industry today.

Why is it important? Well I'm pretty sure that everyone in the room gets it cerebrally. Competition is supposed to drive down prices, raise service levels, and encourage innovation. In fact competition is particularly important in technology industries because the cycle of innovation is consistently shrinking so you need to have forces at work which are continually driving the refreshment and the introduction of those new services.

I'd argue that competition is really important for our industry for a second reason - increasingly the technology and communications industry is central to the wellbeing and daily lives of Australians.

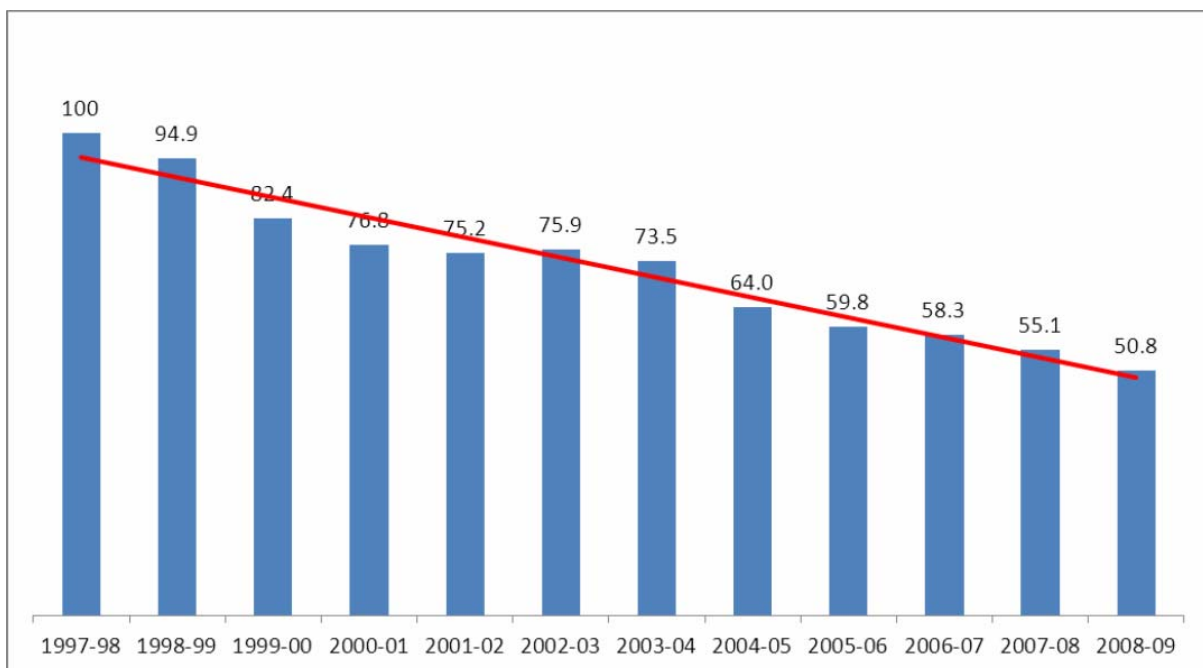
Despite our size, Optus still has very strong credentials in the area of competition. It is true that we now generate \$9 billion in revenue, but it is also true that we only represent today 23% of the industry revenue and by comparison Telstra has 61% of that pool.

The picture is even darker when you look at profitability, where Telstra takes 72% share of the profit pool. So I can assure you this isn't a cozy duopoly. To thrive we have to be the champions of competition and run an

operation that prides itself on continually changing the rules in the marketplace.

Let me give you a cold reality check on what competition does and what happens if you don't get it. There are some stats delivered by the ACCC and what I want to show you is the impact on mobile pricing as competition took hold in the last 15 years.

### Mobile price index



Source: <sup>1</sup> “ACCC Telecommunications Reports 2008-09”, and “ACCC Telecommunications Reports 2005-06”.

Now what is very important here is that not only have you seen prices almost halved, but in the same period you have seen a massive ongoing investment in mobile networks, not only to improve coverage but also to upgrade speed and provide greater service and content.

In fact I'd argue that despite obvious limitations today, Australia still has some of the fastest and best service networks in the world.

Optus has continued to be a major investor through-out that period and invested billions of dollars - in the last four or five years we have invested \$400 to 500 million a year in our mobile network. We have been in the forefront of driving innovation in things like introducing quality of service, and wireless broadband.

In fact I would argue that you can see the importance of competition in driving service levels and innovation – just look at Vodafone who are being punished very heavily in the market right now for their failure to invest and to keep up with the other operators in this marketplace.

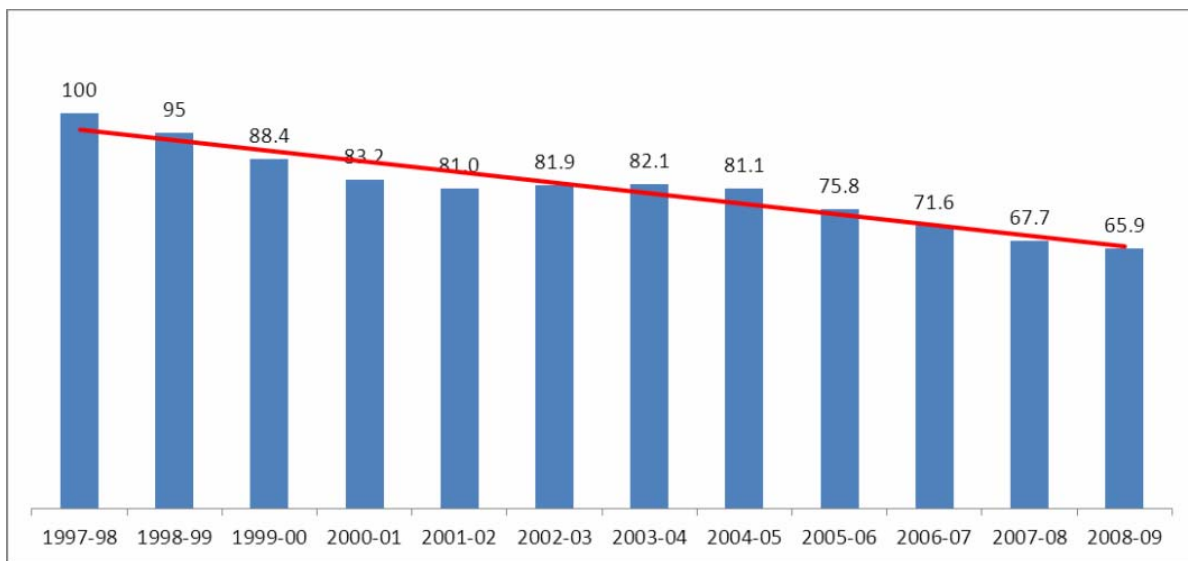
While we're on the topic of networks, I'll just say for the record that we will be launching LTE. But the nature and timing of that will be in another announcement, although I'm happy to talk about our experience in trialing LTE which we have been doing for a while now.

But let me get back to my main point about the mobile industry. You have seen a tremendous impact of competition in driving service levels, innovation and price.

Now let's look at a stark contrast which is the fixed industry. When we look at the same set of stats there are two very important points I'd like to highlight - one is that the price hasn't reduced as much and second it has

come about much later. And as most of you in the room will know that price drop has not come about because of the level playing field, but because of an extraordinary level of intervention by the regulator and government and by the lobbying efforts of all the carriers.

## Fixed Price Index



Source: <sup>1</sup> “ACCC Telecommunications Reports 2008-09”, and “ACCC Telecommunications Reports 2005-06”.

Fundamentally the problem with fixed has been that with profit margins of 59% in the fixed local loop there has been every incentive for the incumbent to delay and frustrate any inroads in competition.

Let me give you another practical example that shows that when you slow down competition, you also slow down innovation.



The example is the roll-out as ADSL2. As Optus and other service providers put ADSL2+ into exchanges, Telstra upgraded those exchanges. But it did not upgrade their other exchanges and left their customers in areas where there was no competition on older technology for quite some time. So it's a really good example of the importance of having competitive forces at work.

### **What does competition mean in an NBN-world?**

So if competition is really important then what does that mean for the NBN? How do we look forward and say the NBN will be set up in a way that will drive that competition?

It is certainly true that the NBN is going to facilitate great access for many carriers to more households, nine million to be precise. But the big mistake many people are making today is to believe that just rolling out the NBN itself is going to ensure there is real choice in those households.

The first thing we need to do to make sure competition reigns as we roll-out the NBN is that there is full transparency around the deals being done with various businesses.

Certainly the recent passage of the legislation to provide for consumer safeguards and structural separation was a good first step. But we need a lot more than that if we want to be comfortable that this is going to work in a truly competitive environment.

## **Transparency to protect competition**

Today I am again publicly calling for all Australians to see the full terms of any deal being done by the government and NBN Co with Telstra. There is an amount of \$11 billion proposed to be paid to Telstra so it is critical that all Australians get to see the deal terms.

Sure Telstra shareholders should have the right to sign off on that deal, but so should all Australians. Why?

Of particular concern is that these payments to Telstra will gravely distort the market in its early phases, and allow Telstra to buy market share as customers are migrated from the old infrastructure to NBN. Make no mistake as you have seen in the early years of mobile and in the early years of the internet, there will be a land grab in the first years of the NBN.

In fact it will be stickier for customers because it will be carrying television, it will be carrying broadband and customers will be using multiple services. It will be a very difficult service to churn once customers begin to buy it.

Our major concern is that the economics of customer acquisition will be strongly distorted by the deal between Telstra and NBN. I'm not asking for any favours here, at Optus we will back ourselves to be competitive, all

I'm asking is that the industry gets a level playing field when the NBN gets launched.

### **Ensuring the NBN Co keeps its promise**

So I have talked about why competition matters, and why we need transparency. Now I would like to talk about how we make sure that the new monopoly that we are setting up is regulated properly and doesn't become a force to limit competition in the industry.

The simplest way to do that is to make sure that there is good governance in place so it is very important for the bills to get passed because without them we could easily see the creation of another Telstra. And if you have seen how long it has taken us to unravel the current Telstra then I don't think that anyone wants us to see that all over again. So let's not recreate the sins of the past in the way we create the new NBN Co.

I'd like to go a step further today and start the debate of what additional steps can be taken to ensure that NBN Co is a nimble, dynamic and customer focused operator.

Like any company NBN Co needs a strong incentive to excel in the things we are asking it to do. We are going to be asking it to optimise its technology and operations to ensure the lowest cost whilst delivering high service levels to its customers.

It's really essential that we do not create a situation like a road toll operator whereby NBN can simply offset its revenue short falls or cost overruns due to poor operating performance by increasing its prices to the end user.

So I'd like to get us thinking about ways we can regulate NBN Co by raising two concrete proposals:

- Firstly, that the operation of the NBN itself should be put out of competitive tender
- Secondly, that the government should create an independent oversight board for NBN Co

I can tell you there is nothing like a bit of market pressure to make sure that organisations perform well.

### **Competitive tender for operation and management of NBN network**

So if we deal with the first of these by periodically putting the operation and management of the NBN network out to tender, NBN Co will be subjected to the same market forces that the commercial sectors face everyday.

How will this work? The management could be tendered out at a national basis or I'd argue to drive even better competition, it could be tendered out at a state or geographic basis. These contracts could be reviewed every

three, five or seven years, but they would be renewed on the contingent of the quality of service and the efficiency of the operations, of each of these operators.

Interestingly, by having a variety of operators, it will be possible to do comparisons between them, and ideally foster the creation of another layer of companies of operators in our industry. What is also very important of course is that as we tender this out, no retail carrier is able to take control or have a strong say in the operation of these companies.

This is not a new model; there are plenty of examples of where this already happens worldwide. In fact in Australia the renewal of spectrum license of mobiles operators is contingent on meeting a number of criteria, and in the UK television licenses in regional areas are awarded to broadcasters on the basis of their capabilities and on metrics associated with their performance.

A further critical point we need to establish is that periodically a series of checks and balances are applied for the operation of NBN Co to make sure it is kept efficient and focused on delivering good outcomes to customers.

### **Independent oversight for NBN Co**

The second thing I want to advocate today is for the establishment of an independent oversight body for NBN Co. Now this is not another parliamentary or political body. You heard Mike Quigley complain about

the level of oversight he is already getting at the political and bureaucratic layer.

No, this is a body that would sit independently of the government and be tasked with ensuring that NBN Co is run with a well defined set of criteria aimed at managing the NBN with the best interest for its customers. Not for the government of the day, not for any political agenda or that of the NBN Co executives, but for the best interests of its customers.

There is another model like this in Australia; it's called the Reserve Bank. It has a very clear charter, and it has the independency to make decisions clear of political inference.

In both of the models I have outlined NBN Co will be accounted and will be kept commercially aligned with the principles of competition and service. Whatever the model it's really important that we have a plan in place so that we don't repeat the mistakes of the last 15 years and create another lumbering telecoms monopoly. We can not afford for the NBN to become the British Rail or the Telstra of the 21<sup>st</sup> Century.

We are cautiously optimistic that the NBN will bring about a brighter future for the industry, but to celebrate the arrival of real competition right now would be premature.

## **Competition in the content and applications layer**

In my last set of comments, I would like to get us all thinking about the emergence of a new and dangerous set of forces which could constrain competition in our industry.

And to do that I want to move beyond the first few layers of the network, the pipes, the wholesale services and so on to start thinking about competition at the level of applications and content.

I think you are going to see a lot more of that over the next few years and I certainly encourage the media to get this debate going in Australia. The big concern here is that the 'winner takes all' approach dominates in terms of applications and content.

In the NBN world people will have amazing access to the world of content and services, but what we are already beginning to see is that emergence of huge externalities around particular applications or content.

An example is Google, where I benefit from all those previous people that visited that site. So much so that there is a vast difference between what I get from visiting where everyone goes and going to a site where only a few people go. Or eBay, who have managed to aggregate so many eyeballs that when you want to sell something it's the only place to go. In fact the emergence of the 'winner takes all' externalities means there is a huge cliff

edge for any second entrant who wants to be a challenger in those applications areas.

Now I don't have any easy answers to this but if you want to see this play out locally, look at what Google has done to Sensis in just the past few weeks.

So what is the solution to this? Well I don't know, but I think we need to start thinking about access in the internet world in the same way we have in the physical world.

For example, maybe we would allow hyperlinks to be placed on the key webpages of the Googles and eBays to alternative providers.

Maybe we will go further and allow the eyeballs that have been aggregated by these 'winners take all' groups to be accessed by others who might bid for holding that auction or providing that search at a better price.

I don't have the answers, but I think it's a debate that needs to have a strong discussion if we are to avoid developing strong monopoly type providers in the application world.

The same is true in content where a provider can use very large cash flows to lock up content and keep it away from other providers. Now we have seen a regulatory response on this in Singapore and the UK where wholesale access must be applied to that sort of content. This makes sure



that the guy with the biggest money bag can't dominate by locking up content. But we really need to see that debate take hold in Australia.

We have spent 15 years fighting to establish an open environment at the physical access layer, so we better all be vigilant to make sure that we don't win that battle only to lose it at the content and application level.

So I hope I have given you all some food for thought over the next few days.

We are on the edge of a fundamental and exciting change in our industry. We believe in Optus that the industry is moving in the right direction by increasing the speed and competitiveness of broadband throughout Australia with the NBN.

As I close I'd like to leave you all with this question – as we all gather again in this room in 20 years time, will we look back and say we used this opportunity to create the infrastructure and the market settings to ensure Australia remains a world leader in productivity and innovation? Or will the people sitting in this room in 20 years time look back and say how could they have spent so much money and ended up with expensive and poorly run services.

We must get competition right, it does matter and the last 15 years shows it does matter. And you have a critical role in making sure Australia understands and debates these issues. Thank you.