CommsDay Summit 2022

Optus Vice President, Regulatory & Public Affairs, Andrew Sheridan presented this address at the Sydney CommsDay Summit on 3 May, 2022.*

It's really great to be here at the 2022 Comms Day Summit.

I'd like to take a moment to imagine we are all at the 2030 Comms Day Summit.

What does our industry look like? What does Australia look like?

Let's imagine it: Underpinned by strong competitive connectivity, Australia is at the forefront of the global digital economy.

Our nation's natural disposition to innovate has led to achievements that have reshaped not only Australia but have changed industries globally.

We've eradicated ID theft, financial fraud and even ransomware threats, through real time block chain and bio recognition applications.

Nations all over the world now rely heavily on these Australian technological achievements to advance their own commercial aspirations.

Niche businesses, improved operations, and entire new industries, underpinned by fast reliable connectivity, have sprung up across not only our urban centres, but also our regional towns.

We are widely acknowledged as a leading digital economy with some of the most tech-savvy small businesses on the planet.

This has allowed greater economic diversification in areas that were historically reliant on industries often crippled by the impacts of extreme weather and relative wage disadvantages.

Our nation's natural entrepreneurial instincts and creative flair have placed us as the world's leading digital economy, and in doing so have addressed some of our planet's most perplexing social and culturally complex issues while setting up Australia's future generations for further success.

So, do we like this picture of our 2030 future? If we like it, we must ask: how did we get here?

To arrive at our 2030 Australia, we seized the opportunities to nurture a more sustainable, competitive sector with the fire power to invest in competitive connectivity. It is the most fundamental component of the digital economy. And in 2022 we recognised that competitive investment was critical and did not take it for granted.

In 2022, we are at an important industry inflection point where we have an opportunity to course correct and to take the positive actions which will set our nation on the course that allows us to achieve what I know Australia can do together.

Today, our sector faces distortions and inefficiencies which need to be addressed to ensure consumers, businesses and the broader economy are set up for the success we just imagined.

It's a fact that the telco sector profits have plunged so that today the smallest of the big four banks generates four times more profit than our entire sector.

An analyst report released by UBS last week noted that "industry returns are sub-economic" and estimated that industry's underlying return on invested capital fell from 8.3% in 2016 to 2.8% in 2021.

So, why should you care? Why should those outside this room, customers, policy makers, care?

To put it simply: businesses that aren't profitable, can't invest.

And if telcos' returns are below their costs of capital – which they are – then how long will telcos' shareholders permit us to invest to rollout out expensive 5G?
We know that the cost of equipment and labour is becoming dearer.

Lifting prices could deliver returns now, but that would increase the cost of access for the services that everyone wants to enjoy and uses nearly every hour of every day.

So, if we don't want huge price rises, we need to look deeper at the factors that are impacting our economics.

Today, data traffic is growing exponentially – around 40 per cent per annum – and that drives much of the telco investment cost. That demand is being driven by a small minority of customers – the heavy gamers and content users – who are driving the need for such massive investments because of the bandwidth they are consuming.

And, at the moment, the reason they consume so much bandwidth is that the over-the-top providers, or OTTs, don't have to think about how much bandwidth is used because it is a *free good* in their eyes.

During the heart of the lockdowns, we asked all the streaming companies to reduce their bitrate so that we could manage the traffic. What happened? ***Nobody noticed***.

Not one customer complaint.

So, the fact that OTTs are consuming at least 20% more bandwidth on something that no one even notices means that it is diverting future value for the whole country by forcing investment to the wrong places to support the wrong things.

And to add to this fact that the OTTs not only avoid the costs of investing in the access and capacity they consume, they also avoid the heavy burden of regulation that is associated with owning infrastructure. This again falls on the local telcos, the companies which are employing people locally and investing in infrastructure locally.

This isn't just about shifting cost from one set of companies to another. It's in ***all*** our interests to solve this problem – telcos, consumers, and OTTs.

Why? If telco's investment is constrained, then we won't be able to meet the capacity demands of future services OTTs may want to offer and consumers would like to use. We must instead strive for a win-win situation.

I know that most of you in this room get this. Most of you agree, or sympathise, or understand there is a need for change.

However, we need to simplify our explanation of this complex area so consumers, and others outside of this room, understand why this is an important topic.

We must prioritise the needs of the majority of customers to foster future affordability and access to network connectivity.

And this is not our only industry's only opportunity. Our market is becoming increasingly beset by distortions that favour the largest player.

We've recently taken an important national security decision to make our 5G networks safe and secure a decision that Optus strongly supports.

But this has impacted the three mobile operators in different ways, with two of us having to divert significant funds on replacement rather than advancement technology.

I'd suggest that the impact of this decision is behind the recently announced Telstra/TPG partnership, which itself risks a further market distortion.

TPG has effectively thrown in the towel on regional Australia by striking a resale deal with the incumbent which will result in more than 700 towers being removed, further limiting choice for regional Australia.

The arrangement will disadvantage our regional communities – Telstra is being paid to face less competition and will get access to very valuable spectrum that could give it an unassailable advantage in our regions.

As business people, you would understand that monopolies are not good for consumers.

Competition advances technology. Choice creates better service. Options power optimism.

Competition brings out the best in companies. Competition is especially good for the incumbent.

In our sector, I'd argue that we have all benefited from competition –competition means that we have all been forced to raise our game, to invest and innovate more.

That's good for everyone.

We believe Telstra cares about Australians and knows that during a bushfire or a flood they shouldn't be the only network on which Australians can rely, that their customers and our communities need to have an alternative to fall back on. And this can save lives.

It helps them that there is another player that is going to invest in regional Australia, and they should embrace competition for the improved outcomes that consumers receive from it.

Yet, if these distortions are not addressed, I fear that Australia risks SLEEP WALKING INTO a regional monopoly.

These are real and present dangers for our sector – but they will also have real consequences for Australians.

If we don't address the investment challenge driven by OTT traffic demands, then our only option will be to cut back on our investments overall.

If industry profits remain constrained – then we will have to look to raise prices. Not ideal at a time when inflation and interest rate rises are challenging household budgets.

If the market distortions presented by the national security decision and the Telstra/TPG partnership are left unresolved then we will create a regional telco monopoly and open up a digital divide between the regions and the cities.

Thankfully, it is still 2022 and we have an opportunity to act now. We can set our nation up for success.

A nation with competitive, sustainable connectivity can unlock our potential and ensure that competitive investment will continue to flow into our sector.

At Optus, we are optimists – even I am an optimist, and I believe we <u>can</u> reach our potential.

We can place our telco sector on the trajectory that will enable our regional communities to fully contribute so we can ensure Australia can fulfill our national digital potential and can become the global leader we are pre-disposed to become.

We can be a leading digital economy underpinned by world class connectivity and innovation and we look forward to playing our part to achieve that for Australia.

ENDS

*Check against delivery.