

Submission to the

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Technology and the Arts**

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1. STRATEGIC INFRASTRUCTURE FUNDING

In order to maximise the benefit of the subsidies that the government has set aside for telecommunications infrastructure in Australia it is critical that the funds (Connect Australia and the future Rural Fund) be used strategically. Telecoms is a large-scale business and in previous projects vast sums of money have been wasted by being used for small-scale projects. I would like to investigate if the industry can work together to build an alternative national platform, starting with regional Australia. A Regional Roundtable has been planned for March 1.

2. SETTING THE SCENE

There is worldwide consensus regarding the direction of telecoms infrastructure over the next 10-15 years:

- FttH in all metro and major regional cities
- Wireless, DSLAMs and BPL on the edges of these cities
- Satellite for remote areas

Furthermore, the backbone and the access networks can't be looked at in isolation.

We do need these funds to future-proof regional infrastructure – hence the need to encourage deeper fibre roll-outs (or enablement, where fibre is already in place, to support utilities or other telco infrastructure). And for that purpose we need a good blueprint of what we already have.

Any funding decisions will have to fit in with these future-proofing considerations.

3. LESSONS LEARNED FROM THE PAST

If investments are not aligned with these developments money will be wasted, especially in the more universal networks:

There are plenty of examples of how not to do it.

- Overbuilding of the Optus cable TV network by Telstra
- Monopolisation of the Telstra HFC network' video capability by Foxtel content
- Significant investments have been lost on backbone-only networks (Nextgen, UEComm, PowerTel, IPI and several others)
- Access-only networks beyond the corporate market generally have not got off the ground at all, and the ones that did either have gone wrong (Norlink) or, at best, are struggling. I can't name any successful new access network, despite huge efforts by myself and others.
- Telstra used its CDMA network for wireless broadband and obtained HiBIS funding for it, only to admit a few months later that it was not the right technology
- The analyses made by the government Auditor regarding the Networking the Nation Projects speak for themselves.

On the other side some of the investments mentioned above have been turned around by positioning them more in niche markets. Other more specialised network investments have been very successful (e.g corporate, business, utilities, universities).

4. GOVERNMENT DIRECTION IS ESSENTIAL

A significant amount of time over the last decade, particularly over the last five years, has been invested in working towards industry cooperation. Some key initiatives are discussed below.

4.1 BROADBAND SUMMIT

In 2000 an industry broadband summit was organised at which all the infrastructure providers were present. The aim was to come up with a cooperative model to stimulate the lagging take-up of broadband in Australia. However, at that time, Telstra made it very clear that it had no interest whatsoever in cooperating with the industry on this. After that first meeting there obviously was no opportunity to further explore a cooperative model at this level, as Telstra dominates 90% of the access network.

4.2 UTILITEL

In early 2001 the electricity utilities came together. These entities are the only real alternative for infrastructure competition in Australia. Optus had more or less abandoned its HFC network and, as mentioned above, the others were struggling.

UtiliTel has become a success story and, in keeping with the concept of an open network approach, this group initiated discussions with Telstra, Optus, AAPT and others, to work on cooperative models.

Once again, there has been very little interest from these telcos in looking at strategic cooperation. (Though some individual commercial backbone contracts have arisen). Since 2001 annual meetings have been organised between the utilities and the second-tier telcos, investigating cooperative models. While there have been a few success stories (AARNet, Soul, Adam Internet) the potential for collaboration is still vastly under-utilised.

4.3 BROADBANDING LOCAL COMMUNITIES

In order to put pressure on the sluggish broadband developments in Australia the *Broadbanding Local Communities* initiative was launched in 2002. Well over 50 councils have been involved, the aim was to advise them on how they can take the right initiatives to get their communities well-positioned for the new knowledge-based economy.

Part of the vision was also to utilise the councils as facilitators to bring telcos and ISPs together to develop broadband access in their cities. While the 'educational' process has been very successful, we have not been able to obtain industry cooperation in providing access. However, through the UtiliTel initiative many of these towns have now been connected to independent backbones.

True, there is now local access (to low-grade broadband) provided by Telstra on its own (not in cooperative models with councils, etc), though often after HiBIS or similar funding was provided. Telstra often went into towns where others had been preaching the broadband message and installed its DSLAMs. While Telstra should be congratulated on its more recent activities in this respect, at the same time they are indirectly undermining the true future-proofing of these areas. The reality, however, is that short-term solutions are needed, as well as long-term ones.

4.4 TELSTRA

Since the early 1980s the industry has tried to obtain cooperation from Telstra to develop, together, the emerging Internet economy. At that time videotex was introduced (the forerunner of the Internet) and Telstra, as a vertical operator, became involved in delivering content in direct competition with the other content providers.

Telstra launched its own stockmarket information services and PC downloading service; it even was involved in a soft porn joint venture. All of these services were given preferential treatment in the indexing and search facilities Telstra offered on this network. Despite several meetings and discussions with AVIA, the industry group at that time, Telstra never showed any interest in working with the industry. Basically this situation has not changed over the last 20 years.

Aside from the initiatives mentioned above, more recently I have asked Sol Trujillo to debate the issues with the industry and I have repeated this request in a conversation with Telstra Country Wide. This division has an excellent strategic infrastructure plan which could be used as a nationwide plan, and which would, in my opinion, be excellent for industry cooperation. Despite an initially positive reaction Telstra has shown no further interest in such cooperation/discussion.

Optus's plan for a combined FttN network in association with Telstra was received with similar negativity as was Ericsson's Homestead plan.

There is a clear clash of interests between Telstra's desire to maximise its profits through monopolisation of the telco industry and the government's aim to use telecommunications as a national asset to make the most of the economic and social benefits it has to offer.

In the absence of a very clear and strong government policy we will continue to make no progress as a nation, relative to international benchmarks. Clearly we are underperforming internationally, and we will have to break the cycle of semi-successful, or even completely unsuccessful, policies in this respect.

5. CONCLUSIONS

If we put this issue in the context of national competition policy, we can draw a few conclusions:

- In an ideal world, Telstra would be the first choice as a universal and open access provider in order to obviate duplication
- Telstra seems happy with half of this - ie it wants to be the only game in town (and the bush) but does not readily support or accommodate any other players it conceives as having the potential to compete anywhere in the value chain
- a structural solution to separate Telstra wholesale from retail has no political support - and would be considered unworkable in the current environment of partial privatisation
- recent history shows that government funding is the only way some equity of service will be provided to significant parts of Australia
- given this reality, the opportunity is there to direct the funding not just to short term equity, but also establishing a real competitive environment that can support long term sustainable alternatives for all of Australia.
- as will be outlined below the many initiatives identified could come together and with government support make a real impact

6. RECOMMENDATIONS: HOW TO PROCEED FROM HERE

6.1 THE BIG PICTURE

Telecoms is a large-scale business and the best solution for the country would simply be to have a national infrastructure monopoly linked to an open access regime. Telstra Country Wide would be one of the best-positioned companies in the world to deliver a first-class network to Australia. This would be by far the most efficient and effective way forward, provided that entity promoted real competitive solutions in the market.

However, it would be totally unacceptable in the emerging Internet economy for this not to be an open network.

I fully appreciate that this option, while the most desirable, is unattainable at present because of the political environment. Given that Telstra has effectively ceased its pretence at an arms-length wholesale operation we may have to accept that it can never happen. However, it is essential that we keep the ultimate solution in mind in designing options that are presently obtainable within the current political environment. The government should at all times keep this big picture in mind when making its more detailed decisions. This would ensure real results (rather than paper-based ones) on a long-term and sustainable basis.

It is very easy to lose effective initiatives by becoming bogged down in the detail of particular projects and micro-funding issues. As well as looking at network elements used in particular projects the government needs to establish, and place a value upon, the **strategic objectives**.

6.2 REAL INFRASTRUCTURE COMPETITION NEEDS TO BE ENCOURAGED

And so the next best step for the government would be to look for 'non-Telstra' industry proposals that offer large-scale approaches and to fund only sound and solid large-scale projects that are a combination of backbone and access.

I have talked to the regional telcos. They perceive the backbone as being the larger problem in relation to the broadbanding of regional Australia, and they maintain that simply solving the access problems is not going to deliver the outcome that we all expect from this large-scale funding.

I also have discussed this with vendors, some of whom also support the notion of a nationwide (regional) integrated long haul and local access approach and I believe that there are good options for cooperation here – for example, with utilities and wireless operators. These projects, including, eg, the Homestead Project, should be combined if we want to get the maximum results from this unique opportunity that the government is offering the industry.

6.3 STRATEGIC USE OF \$ INVESTMENTS AS WELL AS IN-KIND CONTRIBUTIONS

I also firmly believe that all funds should be made available on a \$for\$ basis – the other parties involved need to be equally motivated to put their money on the table, or provide fair-value in-kind contributions. These in-kind contributions could considerably lower costs and drive the government dollar significantly further. Good examples on how this could work can already be found in the 50+ utilities-based telco projects currently operating around the country. As much as possible of existing infrastructure projects should be included in the alternative approach. Scattering infrastructure investments and/or duplicating them would be a total waste of these valuable funds.

With the right government direction I am convinced that the key parties involved in the Australian competitive telco market could be brought together in such a master plan. To be honest, for the government to make its funding work it should insist on a large-scale formalised industry-wide approach to its funding. Such formalised plans should also secure firm commitments on the in-kind contributions from vendors, utilities, etc.

In my many discussions with the vendors I have been assured of their commitment to such an approach – not only as vendors but also as potential financiers. Around the world there are now many examples where vendors are basically running networks on an outsourcing basis.

Based on such a master plan the pie could be cut into smaller slices, which could then be managed by the individual participants in the master plan.

Given my independent, facilitative status in the market I am more than happy to offer you my assistance in turning the above vision and strategies into reality. This is an once-in-a-lifetime opportunity for the industry to get it right. I am very interested to hear from you on these issues. One of the opportunities will be at the Regional Telecoms Roundtable on March 1

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