

New Agenda for Prosperity 2008 Economic and Social Outlook Conference

The Broadband Impasse

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**Speech Notes – Donald McGauchie
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Telstra has had a national broadband plan since August 2005 – almost 3 years ago. We tried to take it forward with the previous Government and the ACCC, but barriers were put in our way that made it impossible to consider investing such a large amount of our shareholders' money.

The Rudd Government has set out a bold policy vision to provide high-speed broadband to all Australians – a vision that Telstra shares because high-speed broadband can and will transform Australia's economy; drive productivity; reinvigorate regions; and deliver better health and education outcomes.

Telstra considers the Rudd Government's aim of 12Mbps broadband speeds to 98% of the population to be a respectable and achievable goal.

We stand ready to help achieve that goal. But like every other company, Telstra has to raise capital in a competitive market and must meet market expectations on the return on any investment we make.

We cannot contemplate investing if we can't make the returns that our shareholders expect. And like any investor, we need to be confident that the returns on our invested capital will justify the technology risk and not be undermined by uncertain regulatory outcomes.

So when we talk about the 'broadband impasse' – in our view the greatest impasse is the fact that the currently regulatory regime actively discourages and distorts investment in telecommunications infrastructure. Put simply, under the regulatory regime, it is cheaper, easier and less risky to wait for someone else to invest rather than to invest oneself. The Optus HFC cable is a classic demonstration of this anti-investment, anti-innovation regulatory regime – here we have a perfectly usable competitor HFC network which Optus has refused to upgrade and properly utilize, preferring instead to piggyback off Telstra's network even within the HFC footprint.....and it then has the gall to call Telstra a monopoly, when it has stood idly by and refused to invest.

The national broadband infrastructure that is so critical to Australia's future economic prosperity. It will cost many billions of dollars to build – and no company can contemplate this sort of investment with a regime that leaves open the prospect of not being able to achieve a commercial return because of regulatory changes made at the whim and the discretion of the regulator.

I say the whim and discretion of the regulator very deliberately because, in telecommunications, the ACCC has unparalleled discretion and power. Unlike in the rest of the economy, the regulator decides what services will be declared and thereby regulated. Contrary to the directions of Hilmer, there are no restrictions of regulatory coverage to areas of compelling need. Unlike the rest of the economy, there is no merits review of what is declared by the regulator. There are no clear criteria governing what the regulator should take into account when deciding whether to regulate a service. And once it declares that a service will be regulated, there are no clear pricing principles to guide the setting of prices. Finally, the undertaking regime provides no long-term certainty for would-be investors.

The telco regulatory regime is a shambles....

It has become characterised by regulatory overreach to the point of micro-managing the industry, inconsistent decision-making, distorted incentives, regulatory gaming and, most importantly, an infrastructure investment climate that distorts investment decisions and stifles innovation.

The evidence is overwhelming – where the ACCC has concentrated its regulatory focus in telecommunications there is little or no investment, and where it has shown forbearance, there is both investment and sustainable competition.

Let me illustrate my point – our Next G network – our billion dollar investment - is delivering 14.4Mbps to 99% of the population as we sit here right now - by the end of the year it will be 21Mbps and will be turned up to 42Mbps by late 2009.

Our HFC cable now delivers 30Mbps to 1.8 m homes.

And of course on February 6 this year Telstra announced we would start activating high-speed ADSL2+ broadband at more than 900 telephone exchanges serving 2.4 million consumers and businesses across every state and territory. Today there are 1294 ADSL2+ enabled exchanges - by mid 2008 – there will be 1402. This means around 16.4 million people live in these enabled Exchange Service Areas which include the majority of significant urban centres and many country towns. There are 347 Optus exchanges that are ADSL2+ enabled today – in high density city centres of course.

Quite simply there is ample evidence of competition in the telecommunications sector. Let me name them - satellite, mobile – the technology that many industry people think will dominate in the future, cable, and lastly fixed line – the unhealthy obsession of the ACCC. Or think about it from the point of view of the consumer. Users think about it terms of screens: - TV, PDA devices, mobile phone devices, desktop computer and your lap-top.

The rules that the ACCC hides behind were enacted on an interim basis in 1997 when mobility was in its infancy and broadband and the internet were virtually unknown in Australia.

They have passed their use-by date. The current regulatory environment imposes horse and buggy regulation on the information super highway. It encourages companies to seek regulatory results rather than to compete on the basis of investment, innovation, smart marketing, efficiency and sustainable pricing.

Telstra believes that telecommunications should be treated like the rest of the economy. Why on earth does telecommunications face a more overbearing regulatory environment than sectors like gas and electricity?

Let me conclude by saying that Telstra is the only company with the workable plans, and the real capabilities and the capacity and the commitment to build a Fibre to the Node network.

Such a network would be “open access” which means that it would not only be available for use by Telstra but also by its competitors. This is a crucial point – everyone would have equal and open access to Telstra’s FTTN network. There are stringent laws already in place to ensure that Telstra does not unfairly treat its competitors in providing access to such networks.

Telstra has a highly-developed plan to build a Fibre to the Node network. We could start building the commercial areas immediately as long as we have the necessary regulatory certainty that any company needs to make such a major capital investment.

We eagerly await the Government’s proposed FTTN tender process and will participate, as long as it is in our shareholders’ interests to do so. We are also vitally interested in how the Government’s promise of up to \$4.7 billion in a capital contribution can assist in extending the FTTN out to regional areas

The coming months are critical for this sector. We need to make sure this high-speed broadband investment happens but we need to realise that no one will invest if regulatory risk and uncertainty means no one can be confident of making a competitive commercial return on such a major investment.