



Submission by TPG Telecom Limited (TPG)

to

Bureau of Communications Research (BCR)

FUNDING OF NBN NON-COMMERCIAL SERVICES

November 2015

1. TPG opposes the recommendation made by BCR that the commercial service losses that may be incurred by NBN in connection with its supply of fixed wireless and satellite services be funded by contributions solely from the operators of high-speed fixed line network operators (the “**BCR Recommendation**”).
2. TPG believes that the cost of social objectives should be met from social resources, that is, general government revenue which is collected to meet the objectives of Australian society. TPG notes that BCR has formed the view that its Terms of Reference do not include consideration of this as an option (page 50). Nevertheless, TPG urges the BCR and the Government to relook at the issue and notes that ACCAN has also made submissions in support of this proposition. The best transparency and economic efficiency would be achieved by such funding and the motivation to manage the expenditure on non-commercial services best achieved by the budgetary process, fed by political and media oversight.
3. The telecommunications industry has over many years been subject to economic distortions created by a desire to keep the cost of social objectives “off budget”. The desirability of funding a basic level of telecommunications services for Australians is indisputable. The Universal Service Obligation however has been funded by a levy that stifled competition by taxing fledgling organisations based on their revenue, regardless of whether they were at the time making profit.
4. The BCR notes that economic theory shows that collecting a given amount of tax revenue from a broad base is less distortionary than collecting the same amount of revenue from a narrow base (page 54).
5. However, under the BCR Recommendation, the social objective of bringing superfast broadband to Australians would be funded by a tax more targeted than the USO Levy/TIL; that is, one which will be paid by the suppliers of superfast fixed line broadband services and the end users who acquire those services.
6. TPG has made several public submissions in which it has indicated its view that fixed line services are susceptible to significant substitution threat from wireless technologies. BCR seems to acknowledge that such a threat exists but discards it as meaningful due to the currently relatively low mobile data consumption rates compared to fixed line. TPG submits that such a position is too simplistic.
7. The current levels of mobile broadband consumption are a product of:
 - (a) The fact that wireless data is relatively new as an access technology compared to fixed line;
 - (b) The nature of the technology currently available; and
 - (c) The dynamics of the market place that is producing above fixed line profits for two of the three mobile providers such that neither is motivated to offer higher data download inclusions.
8. It is noteworthy that following a period of constricting data inclusions and the resurrection of Vodafone as a serious competitive threat in that industry, both Telstra and Optus have recently reduced the effective price of mobile data downloads. There is no reason to believe that, given an

incentive to do so, the mobile network operators will not be able to increase their effectiveness as a substitute for fixed line broadband, particularly with technological developments progressing rapidly.

9. The tax proposed by the BCR Recommendation will be such a distorting incentive. If the cost of supplying fixed line services is artificially inflated by a tax, there is every reason to believe that spectrum owners will seek to increase their returns by selling mobile services in more strident competition to fixed line. Such distortions unreasonably operate to favour one kind of product over a different kind of product.
10. If an industry tax is to be implemented, it should not just be levied on the users of fixed line services but should include the industry more broadly in order to be appropriately sustainable and equitable.
11. Indeed, TPG considers that the BCR could and should have considered the “industry” to have a wider definition than pure carriers and carriage service providers. A big proportion of the TPG group’s cost of supplying NBN services is incurred carrying the traffic of significant over the top providers like Netflix and Stan. It has been said that the main outcome of the NBN will be the distribution of video content to residential customers. Netflix and Stan (and other organisations supplying OTT services) are contributing nothing to the cost of the national broadband network but will be significant beneficiaries of the increased market that will become available to them. TPG considers that a broadening of the payers for non-commercial services should include those types of providers.
12. BCR seems to suggest that if these sorts of events occur, then a “periodic policy review process” could be undertaken (page 55). TPG understands that this is of course possible but the industry needs certainty to be able to make its investment decisions. If the position is that the tax will not be on wireless services, TPG may choose to make greater investments into the wireless service market. It is fundamental to economic activity in this country that such investments not be fraught with the regulatory risk of new taxes. It is a subject of some sensitivity to TPG, with its legitimate investment in its FTTB network being by seriously impacted by Government intervention and now possible taxes that will affect TPG.
13. This sort of intervention is particularly targeted when one considers the times at which investments in high-speed networks have been made. The TransAct HFC network will be captured by the proposed tax and the investments in that network were made many years before there was any contemplation of the NBN. It is an important tenet of government in Australia that the economic signals are supportive of economic investment. The implementation of a tax on a network the investment case for which was built many years prior to the implementation of the NBN will act as a deterrent to investors of capital in Australia.
14. TPG does not agree that the proposed tax on fixed line operators only is necessarily the most effective way to create an incentive on NBN to control its costs. Noting NBN’s position as largely a mandated monopoly and the fact that the great majority of residential and small business consumers of fixed line services will effectively be forced to acquire an NBN service (assuming they wish to retain a fixed line service), it is unlikely that NBN will consider the tax as a particular incentive to do anything other than to pass on the tax. This is one of the problems with monopolised markets. The monopoly owner can essentially do as it pleases and knows that the consumer does not have many options. As mentioned earlier, in TPG’s view, a far more serious disincentive to high cost non-commercial services will be political oversight and media scrutiny.
15. In summary, TPG considers that the proposed tax on operators of fixed line superfast broadband networks will be another distortion in an already difficult industry and should therefore be reconsidered.