

18 December 2013

Hon Malcolm Turnbull MP
Minister for Communications
deregulation@communications.gov.au

Deregulation: Initiatives in the Communications Sector

Your Reference

Our Reference IP 121301

I refer to your letter of 26 November 2013 in which you have called for advice and input concerning the Government's "red-tape" regulatory review. Macquarie Telecom Pty Limited ("**Macquarie**") is pleased to provide you with this response. Macquarie welcomes the Government's initiative as it provides an opportunity to reduce business costs and to improve operational efficiency. At the same time, Macquarie cautions that effective economic regulation is essential for promoting competitive markets and delivering benefits to consumers. As such, regulatory interventions which promote and protect competition should not in anyway be eroded in this review.

Macquarie believes that significant regulatory reform can be achieved as part of this red-tape review with regard to the existing universal service arrangements. The current universal service arrangement is the quintessential example of a regulation which "has manifestly outlived its usefulness, is burdensome on companies in the sector without adding any value to industry or consumers".

Macquarie submits that the payment of the Telecommunications Industry Levy ("**TIL**") by competitive carriers to fund the costs of universal service provision is fundamentally flawed and is detrimental to competition. Non-Telstra service providers pay the TIL to the Telecommunications Universal Service Management Agency ("**TUSMA**") in order to cover:

- the TUSMA's administration costs; and
- amounts paid by the TUSMA to contractors to supply universal services.

In effect, competitive carriers are required to make TIL payments to Telstra for the mere "privilege" of competing with Telstra. As such, the TIL is effectively a tax on competition which discourages sector participation and investment. Deep-seated problems with the universal service funding model have been brought to the attention of policy makers on many occasions. In 2008, the Regional Telecommunications Independent Review Committee noted the following:

*"There is substantial controversy about the current USO arrangements and the Committee notes that nearly all stakeholders dislike the current arrangement. ACMA referred to the USO arrangements as a 'broken concept'."*¹

¹ Regional Telecommunications Independent Review Committee Report, 2008, p182

*"The fiscal arrangements for the cost of the current USO are currently inefficient and not well structured."*²

Macquarie believes that Telstra should fully fund the cost of universal service. This view is consistent with recommendations from a comprehensive review of the statutory arrangements for costing and funding the USO undertaken by the Government in 2004.³ The review recommended that Telstra should fund all the costs associated with fulfilling the USO. This recommendation was based on the following rationale:

*... the Telstra funding approach is preferred because it would resolve many of the contentious issues that have surrounded the USO funding scheme since its inception, is administratively efficient, would have few major negative effects and equity concerns ..."*⁴

Macquarie is also concerned that the existing universal service arrangements lock-in outdated concepts in the definition of universal service. The key services which are supplied by Telstra under the universal service arrangement are the standard telephone service and payphone services which are essentially delivered over fixed networks. Nowhere in this arrangement are the services that have emerged in the past 20 years which now comprise basic mainstream public communication services, i.e., mobile services and access to the Internet.

The following table shows Australia's penetration data by communications service for the years 2000 and 2012.

Table 1: Australian Penetration Level by Service

Service	Penetration per 100 Inhabitants	Penetration per 100 Inhabitants
	2000	2012
Mobile cellular subscriptions	44.68	106.19
Fixed telephone lines	52.44	45.69
Fixed Internet subscriptions	20.46	25.06

Source: International Telecommunication Union

The data in Table 1 shows that since 2000 the demand for fixed services has declined while the demand for mobile and fixed Internet services has increased. In 2000 fixed telecommunications services might have been the appropriate service base for the provision of universal services as fixed services had the highest level of penetration. As Table 1 shows, things have changed considerably with mobile service penetration now more than double that of fixed service penetration.

Macquarie submits that it is not appropriate to anchor universal service arrangements to services which are no longer sought by consumers now let alone in 20 years' time. In Macquarie's view the existing arrangement will require the Government to pay Telstra \$290 million for each of the next 20 years to ensure that services which no-one wants remain available. Accordingly, the existing regulatory framework governing universal service should

² ibid, p183

³ Department of Communications, Information Technology and the Arts, *Review of the Operations of the Universal Service Obligation and Customer Service Guarantee*, April 2004

⁴ ibid, page xvii

be dismantled.

Should you have any queries in relation to this matter please feel free to contact me.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Chris Zull'.

Chris Zull
Senior Manager, Industry & Policy

Phone 03 9206 6848

Email czull@macquarielecom.com