

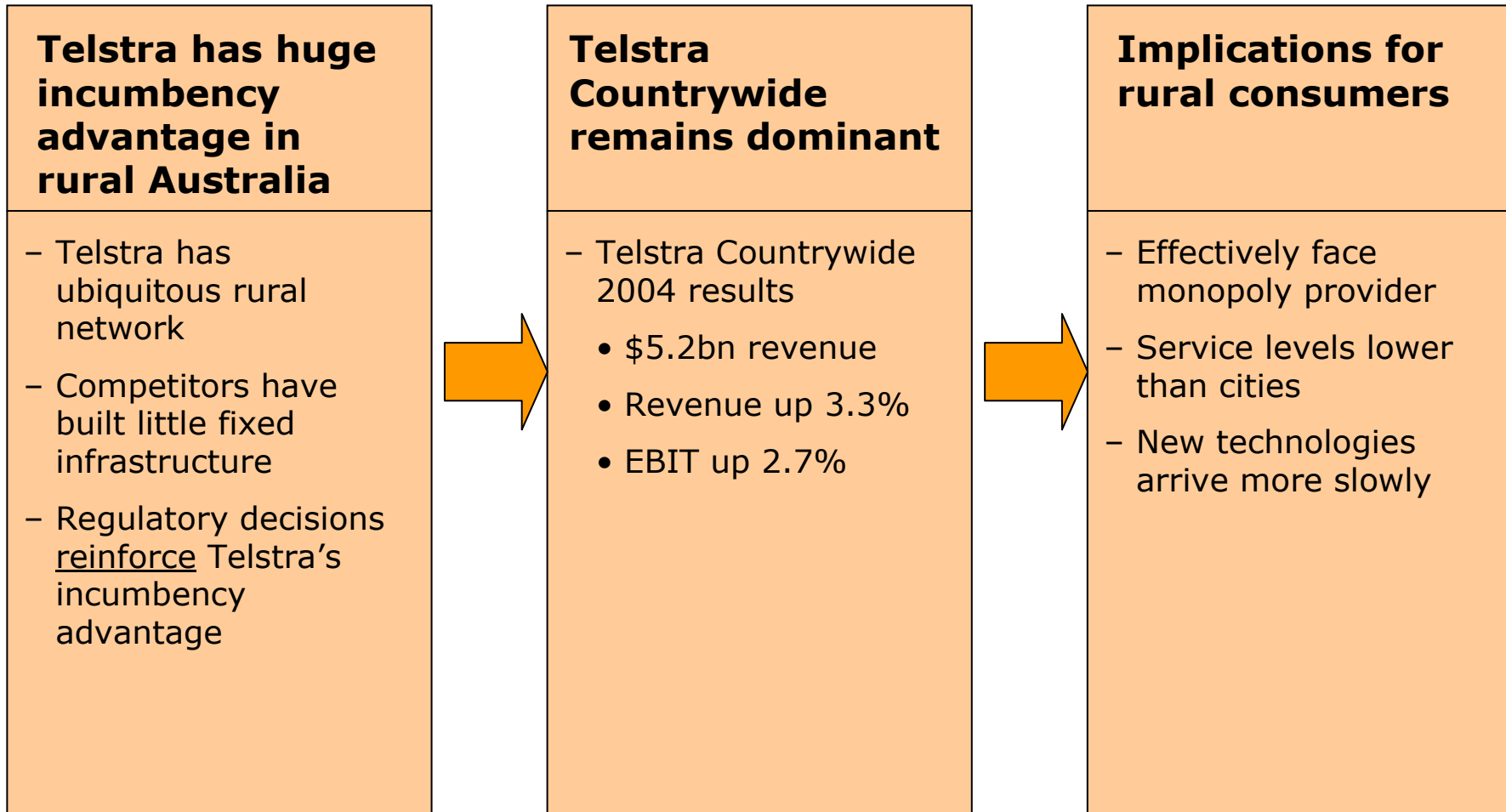
Telecommunications in Rural Australia – Stimulating Competition for Real Future Proofing

Optus presentation to
ATUG Rural and Regional Conference
12 May 2005

Overview

- State of play today
- What Optus is doing
- The policy challenge
- The right policy responses

Telstra still dominant in rural fixed line



Outline

- State of play today
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Rural Mobile Network expanding strongly

Total Optus base stations

4143

Percentage in rural Australia

30%

Optus GSM coverage on eastern seaboard*

**Doubled in
last 5 years**

Increase in rural and regional coverage since 2002

**More than
200,000 km²**

* Including areas where there is currently no GSM coverage provided

'yes'
OPTUS

Rural broadband presence growing strongly

Optus resale DSL customers in regional Australia	26%
Optus share of HBIS grants	Approx 22%
Optus DSLAMs rural Victoria	41 DSLAMS (TPAMS)
Optus DSLAMs rural Queensland	30 DSLAMS (SMARTNET)

Other Optus contributions in rural Australia

Rural households served by pay television over Optus C1 satellite

500,000

Rural school students receiving internet over Optus satellite

Over 40,000

Kilometres of Optus backbone network from Perth to Cairns

8,400km

% of Australians who can get Optus dial up internet via local call

99%

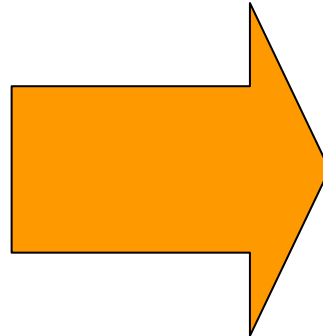
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The Goal

Market structure in rural Australia

- Substantial competitive presence
- Constant threat of competitive entry
- Telcos enter rural market because it is commercially attractive NOT for political reasons

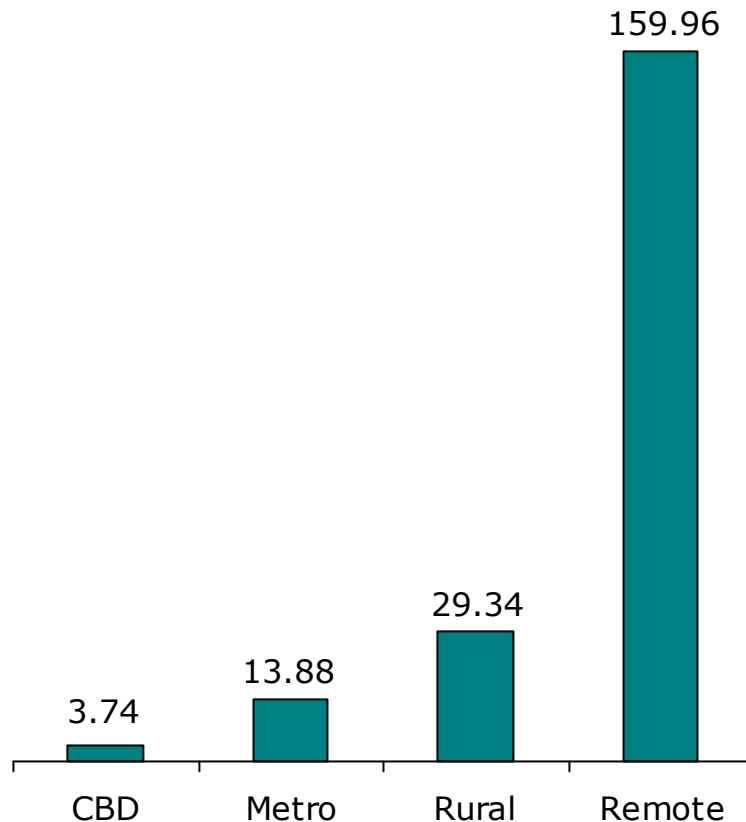


Outcomes for rural Australians

- Similar services in city and country
- Equivalent
 - quality
 - coverage
 - rate of innovation
 - service levels
 - price

The Iron Laws of Economics

Cost per line by geographic band



Source: Telstra ACCC submission 2003

Implications

- Competitive entry more difficult in rural Australia
- Telstra protected by huge barriers to entry
- Competitors will start in the city first
- Competitors will probably need city revenues to cross-subsidise rural entry

Some additional challenges

Reduced political focus

- Attention will move on to other things
- Less Government leverage over Telstra
- Rural telecoms funding will likely reduce

Rapid technological change

- Increases annual capex requirements to keep services up to date
- New services will likely continue to "cascade out" from the cities

Telstra's potential behaviour post privatisation

- Telstra may seek rapid cost reduction and reduce investment (like Telecom NZ)
- Private sector management may be less willing to cross-subsidise

Outline

- State of play today
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- The right policy responses to future proof rural telecommunications

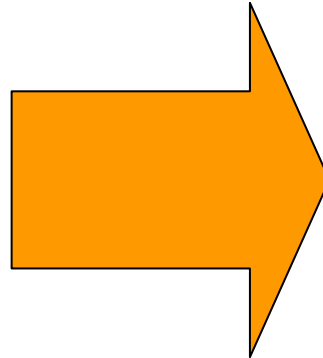
The right policy responses to future proof rural telecommunications

1. Champion competition
2. Stop reinforcing Telstra's dominance
3. Stimulate competitive rollout of broadband networks
4. Tighten the regulatory regime

Champion competition

Why backing competition makes sense

- Drives reduced prices, improved service, more innovation
- Central principle of Australian telecoms policy for 15 years
- Best way to achieve sustainable improvements in rural services

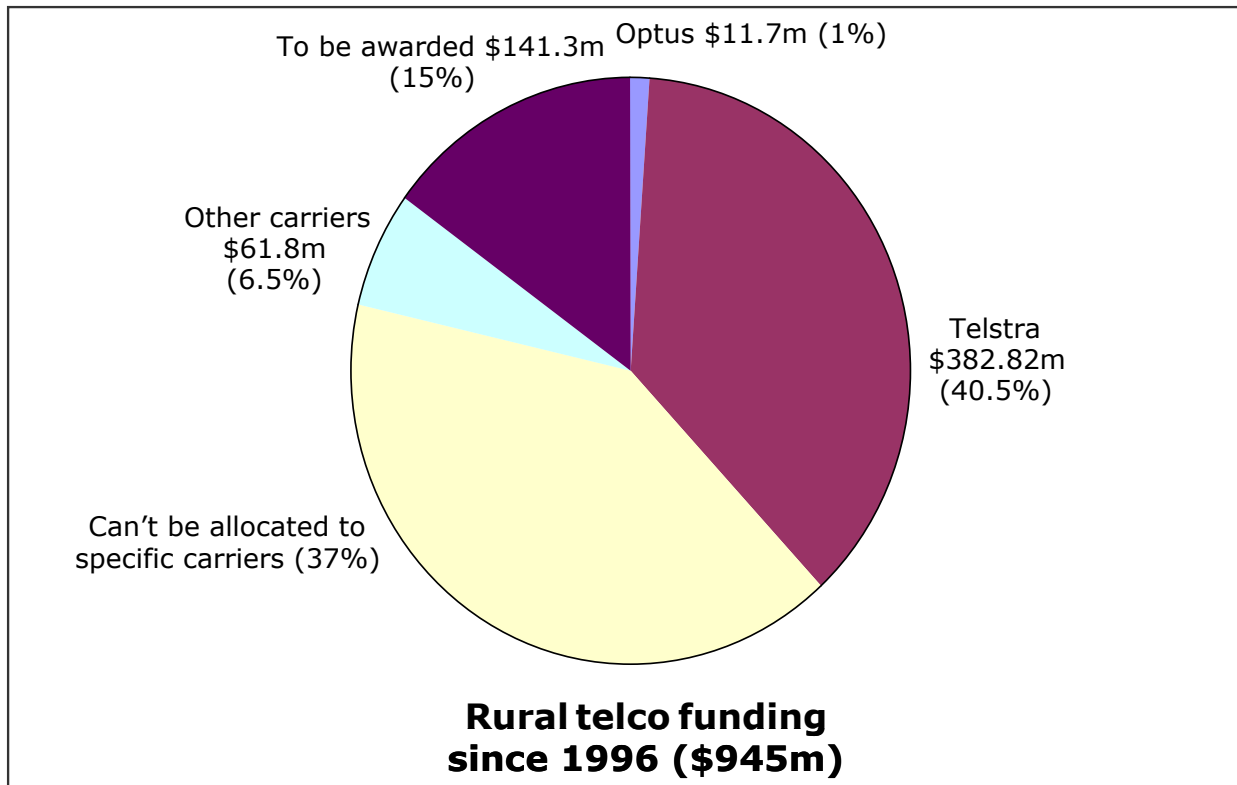


Policy Implications

- Ensure all policies stimulate competitive entry
- Don't back Telstra as the national champion
- Don't plough public money into standalone, non-sustainable, Government owned networks
- Target funding to stimulate competitive entry by sustainable players

Telstra's dominance (1) : Stop giving lion's share of rural funding to Telstra

- Telstra has obtained the lion's share of rural and regional funding



Most of \$347m not attributable to other carriers would have **also** gone to Telstra

Telstra's dominance (2) : Remove USO cross subsidy to Telstra

Funding scheme stifles telecoms competition

- Smaller, less profitable competitors pay larger, profitable Telstra a \$60m annual cross subsidy
- Subsidises incumbent services in rural Australia – makes entry by competitors hard
- Sucks away funds competitors could otherwise use for rural services
- Contribution by non Telstra players is invisible to rural Australians

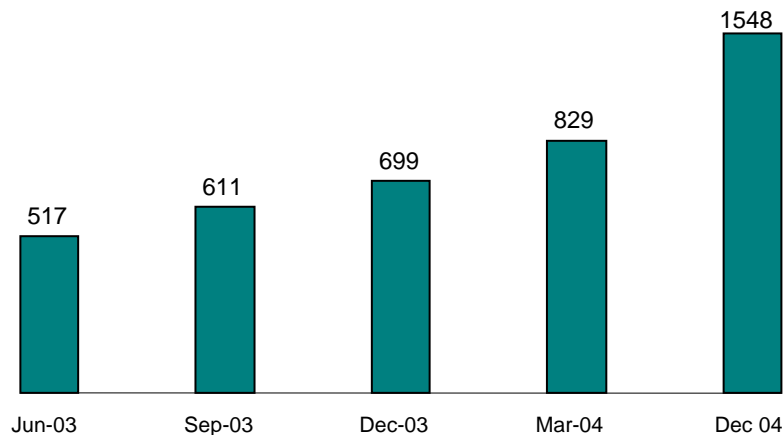
What Department of Communications 2004 review said

"..... USO subsidy and funding arrangements have the effect of reducing the incentives for all other carriers to enter telecommunications markets..... Without changed arrangements, the current scheme will continue to deter new carriers and CSPs from entering the market. This will particularly be the case in regional, rural and remote areas that are potentially loss making."

Review p117

Competitive broadband (1) : Broadband market growth offers once in a generation opportunity...

Broadband services in Australia



Source: ACCC broadband survey

Opportunity

- Broadband market low penetration (20%) but growing rapidly
- Good opportunity for new entrants to build customer base in resale
- New entrants can build out DSL networks using ULLS and transition their customer bases
- Should create sustainable competitive market

Competitive broadband (2) : The challenge is to stimulate the broadest possible rollout

Challenge

- Stimulate rollout of competitive broadband networks – broadly across Australia
- 800 Telstra exchanges covers 95% of population
- Capex substantial and risky

Solution : Bridge to Broadband

- Incent competitors to more extensive competitive rollout
- In exchange for rollout commitments, provide concessional resale prices
- Follow precedent of GSM rollout policy in early 90s
 - Concessional AMPs resale rates to Optus, Vodafone
 - Network Development Deeds

Tighten the regulatory regime

Optus Position

- Optus is agnostic about the question of Telstra ownership
 - However a privatised Telstra will have enormous market power
- The telecommunications regulatory regime will need to be strengthened to promote effective infrastructure competition

If the ownership leash is to be removed, the regulatory muzzle must be tightened

Recommended regulatory changes

- 180 day restriction on win back
- Non discrimination rule
- Operational separation may have merit if key conditions met
 - visible transfer prices
 - prices used to prepare accounts
 - effectiveness regularly reviewed