

**THE HON JOHN ANDERSON MP  
DEPUTY PRIME MINISTER  
LEADER OF THE NATIONALS**

**AUSTRALIAN TELECOMMUNICATIONS USERS GROUP  
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I'm very pleased to join you to talk about the 2005-06 Budget -- it is a Budget for Australia's future and has significant long term benefits for business. I will also be talking about telecommunications policy more broadly.

Delivering a strong economy

The foundation of all our policies is strong and disciplined economic and financial management.

As a result of our strong economic management, the economy is forecast to grow by 3 per cent in 2005-06, compared to 2¼ per cent in 2004-05. Unemployment is expected to remain at about 5 per cent, around the lowest level in 28 years.

By June next year, we will have paid off \$90 billion of the \$96 billion in debt that we inherited from Labor. By June 2007, the Australian Government will have no debt at all for the first time in 30 years, apart from our unfunded liability for public service superannuation.

We are going to seize the opportunity and create a Future Fund, which will build up assets so we can meet those liabilities without drawing down on the Budget. The fund will be quarantined by law and will be invested by an independent board.

It means that we will pay for the government liabilities that we are incurring now, rather than passing them on to our children.

Welfare to Work

The Government is also taking steps to increase the proportion of the population in the workforce. If we do not take these steps, Australia's ageing population will slow the growth in our living standards.

That's why our Welfare to Work package is one of the key economic measures in the Budget, as well as the key social measure.

It will encourage many Australians on income support to seek part-time work. The package is not about saving the Government money. In fact, it will cost \$3.6 billion over four years, because it includes a huge assistance package to help people on income support rejoin the workforce.

Parents who are currently receiving the Parenting Payment will continue to receive it until their youngest child turns 16. However, they will have to look for part-time work a year after their youngest child turns six or from 1 July 2006, whichever is the later.

Parents who apply for the Parenting Payment after 1 July 2006 for the first time will receive it until their youngest child turns six. They will then receive enhanced Newstart, and will have to seek part-time work.

The Government will fund an extra 87,800 childcare places to help parents make the transition from welfare to employment.

There will also be changes to the Disability Support Pension, but they will not affect people who currently receive it. From 1 July 2006, however, people will only receive the disability pension if they are assessed as being unable to work 15 hours a week at award wages. People who are able to work 15 to 29 hours a week will receive enhanced Newstart and will have to seek part-time work.

Again, the Government will provide massive support to help people with disabilities. There will be an extra 41,600 rehabilitation places, and an additional 12,300 vocational education and training places.

These measures will help more Australians back into the workforce. They will improve our future standard of living, and will have an important effect on your businesses.

#### Skills and training

I'd now like to turn to skills and training more generally. Australia needs to have a highly skilled workforce to sustain our strong economic growth. Our low unemployment rate means that many employers, particularly in regional areas, are finding it difficult to get the skilled workers they need.

The Budget includes an extra \$46 million to deliver:

- up to 4,500 pre-vocational places for people interested in a trades career; and
- a further 7,000 school based New Apprenticeships.

It builds on the very substantial commitments we made in the election campaign, which include:

- the establishment of 24 Australian Technical Colleges for 7,200 students in year 11 and 12. In Queensland, there will be technical colleges in Townsville, Gladstone, north Brisbane and the Gold Coast;
- the extension of Youth Allowance, Austudy and Abstudy to apprentices; and
- scholarships and special toolkits for apprentices in skill shortage areas.

#### Making Business Competitive

The Government will cut business taxes by \$1.8 billion.

From midnight on Budget night, the 3 per cent tariff on imported business inputs that do not have substitutes manufactured in Australia was abolished. The measure will save businesses \$1.3 billion over five years, and will have significant benefits for the communications industry. Let's take as an example the microprocessors that are at the heart of so much telecommunications equipment.

The only Australian-made substitute for these imported products is now located in the Museum of Victoria – it's called CSIRAC One; it weighs 70 tonnes and has mercury delay lines for memory.

The Government will also change the tax treatment of a number of legitimate business expenses, known as blackhole expenses, that are not recognised under the law. The new provisions will apply after 1 July 2005, and expenditure will be able to be written off on a straight line basis over five years.

#### Personal tax cuts

The Budget includes \$21.7 billion of personal income tax cuts over four years. They build on the tax cuts in the 2004-05 Budget.

- From 1 July this year, the 17 per cent marginal tax rate will be cut to 15 per cent;
- The 42 per cent tax threshold will increase from \$58,000 to \$63,000 on 1 July 2005 and to \$70,000 on 1 July 2006;
- The 47 per cent tax threshold will increase from \$70,000 to \$95,000 on 1 July 2005 and increase to \$125,000 on 1 July 2006.

As a result of these changes, more than 80 per cent of taxpayers will face a top marginal tax rate of 30 per cent or less over the next four years. From 1 July 2006, the top marginal tax rate will only apply to 3 per cent of taxpayers.

Every now and then, people call for the tax rates to be indexed to inflation. If the threshold for the top marginal rate had been indexed to inflation since 1996, on 1 July 2006 it would have been less than \$64,000. It will now stand at \$125,000.

#### Superannuation Savings

The Government is committed to providing Australians with greater choice and flexibility in their retirement income arrangements. Last year, the Treasurer announced a plan to reduce the superannuation surcharge for middle and upper income earners, which we introduced in 1996 to address Labor's large Budget deficit.

We have previously tried to reduce this surcharge, but the Labor Party blocked it. The Government has now decided to completely abolish the surcharge from contributions and termination payments made or received from 1 July 2005. This measure will save taxpayers \$2.5 billion over the next four years.

#### Telecommunications policy

Let me at the outset make the observation at the moment we have got a group of people looking at infrastructure constraints on exports and they will report towards the end of the month. Telecommunications of course is broadly described as a very important part of the nation's infrastructure, one of the most important of all and when you talk about exports, it is important and illustrative to remember where overwhelmingly they come from, and its rural and regional Australia.

Whether its mining, whether its agriculture, whether its tourism, the activities that are so critical to our balance of payments happen out there and in that context I would just say to those who think that those of us in regional Australia are only pushing the

regional barrow when we talk about the need for good telecommunications I remind you we are not, this is a matter of national economic importance as much as anything else. And when you go to a Birdsville, Channel Country and you talk to people who are in regular communication with their customers in Italy, Japan, all over Europe and they demand world class telecommunications to be able to do it, you recognise how important the issue actually is.

This debate in my view was never really about who owns Telstra. It's a debate about how you put in place policies that will deliver world class outcomes and the sort of outcomes rural Australia needs in terms of access to services, reliability of services, and the cost of those services and technologies.

If ownership was all that you needed to do to guarantee service outcomes we would have had of course world class telecommunications back in the day of the wholly owned PNG – whereas in reality of course much of regional Australia waited an ordinarily long time for new technologies, reliable technologies and indeed it ought to be remembered most of regional Australia paid for a lot of their own infrastructure and it is very easy to forget. I mean I think we had something like eight or nine kilometres of our own private line that we had to construct and maintain and that was the norm before you got on to the truck line exchanges.

So the real debate is about how we ensure this country has the telecommunications services it will need in the future. It is not just a regional issue it is a national issue.

It becomes a regional issue because until this government came into power in 1996 the gap between city and country telecommunications services just kept on widening. We have done a lot to narrow that gap, I don't say that we have closed it entirely, we have certainly achieved very significant improvements, improvements that were simply not going to happen if we hadn't intervened.

One reason the gap has not been closed, and this is the real issue for the current debate, is that telecommunications demand and technology has boomed so quickly we have had to pursue (tape breaks)...

In the mid 1990s people in rural areas, if they used the internet at all, would consider themselves to be doing pretty well if they could achieve speed of 28 kb per second on a dial up modem. Now country people want ADSL and 'always on' service, typically running at 256 kb per second, about ten times faster than it was 10 years ago. And more and more when we talk broadband we mean internet speeds that are measured in megabytes per seconds not kilobytes per second. Now I was talking to a bloke who understands this stuff perhaps as well as anyone in Australia the other day, and he made the observation that the computing power of the chip has over the last couple of decades doubled every 18 months, which is mind boggling. If you do the maths on that, it is possible, indeed likely, that over the next 10 years computing power, the computing power of the chip, will increase up to 100 fold, quite mind boggling figures. I say in that context that we need to prepare for it. People will need access to it. It will be the way the world does business and we can't be left out of that business. That immediately challenges the nation, and we hear from some of the telecommunications sectors that we should provide services as demand makes it necessary, in reality that's left us in a situation where a lot of what we have been

calling broadband isn't really regarded as broadband internationally anymore anyway. We need, I think, to be ahead of demand to be where the rest of the world is and much of the rest of the world is now setting broadband targets, that's what countries are doing, the Japanese are doing it for example and so we need to work this one through very carefully indeed.

The real question we need to address is whether we have the telecommunications sector that we need to enable us to first, finally close that city country gap and secondly, to ensure that all Australians have the services they need to meet the rapidly changing telecommunications demands and technologies of the future. It is a debate we have to have.

From The Nationals point of view, the debate breaks down into four broad areas, we are spending a lot of time working through these at the moment. The first is competition, second, regulation, third, infrastructure, and the fourth is what might be called, the government's responsibility.

We should always recognise that competition in telecommunications drives improvements in services, technological development, and reductions in prices. That is the classic market solution to the demand of services, more reliable services, at more affordable prices in most circumstances.

Telecommunications of course is not different. There is an extraordinary number of telco's in Australia driving competition, where they are all active has improved services for a lot of people and indeed it is quite evident if you look for example to where Optus has moved to in recent times the services they provide, that a lot of Australians, the very great bulk of Australians, will benefit from improved competition.

To promote competition, and this is a very important part of this debate, potential new entrants to the market and smaller players need to have the confidence that they will be able to compete on a level playing field with the established players – especially when one of those players is as dominant across the whole sector as is Telstra in Australia.

Real competition means that any company in the retail sector of the industry needs to have confidence that it can deal with the network part of Telstra, on an equal basis to Telstra's own retail arm.

There is considerable doubt, at best I have to say, as to whether, in the past, this has been the case.

We believe the solution for this lies in effective and transparent operational separation of the two arms of Telstra – network and retail.

Many argue, I understand why, that it would have been useful for full structural separation to take place when it was corporatised back in 1991 or 92. It didn't happen and its too late now, I think, to break it up. I think the debate we have had indicated that. But this issue now of how we achieve operational separation is achieving a lot of attention and I am particularly thankful to the work that Helen Coonan, the Minister,

is doing on this and we will need to look at the first step when she has completed that review, which she is undertaking and we have its outcomes.

And I think that review will achieve another purpose, it will better inform the subsequent debate about regulation, because competition won't do it all and that's an important point that must be recognised. To an extent the competition and regulation debates actually have to go hand in hand because it may be possible to take a lighter touch with regulation if the competition regime is sufficiently robust.

We are also concerned that the regulation debate needs to look at the powers and effectiveness of the regulator. The Customer Service Guarantee that this government introduced certainly placed obligations and penalties on telecommunications companies in regard to service installation and repair – but anecdotal evidence suggests that stricter policing of the CSG might be in order.

On infrastructure, the work of the Page Centre and infrastructure company Baulderstone Hornibrook looking at a national optical fibre roll-out has raised the question of whether the copper Customer Access Network is really adequate to meet our future needs.

That's one of the reasons by the way that I have so much difficulty with those people who just say the only solutions we need is to keep everything the way it is at the moment. This is a real issue, what is the condition of the customer access network, just what can be done to with new technologies, what are our limitations and how do we determine at what point we need to go beyond that technology.

Baulderstone Hornibrook has put a price and a timeline on this project – in the order of \$7 billion and five years. Telstra's estimate, and that of some others in the industry, is that it would take a lot more of both money and time.

And then there is of course the next vexed issue in this whole set of policy conundrums and that's over the pro and cons of the various technologies on offer: copper versus optical fibre versus wireless versus satellite.

While it might be unwise to try to pick technology winners, we are probably faced with having to make some basic technology choices if we are going to try to equip this country for the future.

The option put forward by the Page Centre and Baulderstone deserves serious investigation – and at the same time it would be helpful if we had a close look at the true state of the existing network, what it might cost to maintain, what we might be looking at if section of it have to be replaced, so that at least we know where we are starting from.

It is hard not to observe this regard that if the basic technology of the CAN was now optical fibre rather than copper, a lot of the concerns of regional Australians about internet speed would simply not have arisen.

Finally the fourth thing that I touched on is what might be loosely described that the matter of the government's responsibility. The Nationals and this government accept

that there must always be a role for government in ensuring that, where commercial services fail, telecommunications services are still made available.

I want to emphasise again that it is my very strong view when I look to what the private sector or non Telstra sector is doing in the areas where they are already set up or where they told me they would like to set up, they usually bring that with concerns about whether they can set up there on a fair and equitable basis with Telstra's ownership of a lot of the infrastructure. It's got to be acknowledged that competition done properly will reach a lot of people and I suspect quite a few more than it currently does. But it won't reach everyone, and that's where basic commercial failure occurs and governments have a role.

This government has shown its commitment to this principle through our 10 years of effort, and more than \$1 billion in spending.

The extent of government involvement and spending that will be needed in the future depends to some extent on the competition and regulatory regimes that we apply.

It also depends on the infrastructure that we might need.

In the past, service delivery in remote areas and small markets has been funded from a variety of sources:

- from the telecommunications industry, in the case of the USO;
- from proceeds of the sale of Telstra shares in the case of programmes like Networking the Nation
- and from normal on-Budget allocations as in the government's response to the Estens report.

The three reports we have had are very interesting, you can track them over time. The first one concentrated on fixed line services, people worried about time of getting new services, reliability, repair times. The second one was very heavily focussed on mobile phones, people's concerns centred on mobile phone access, and the third one was very much about data speeds.

But How these services, these shortfall if you like that need in the national interest as well as in the interests of fairness and equity might be best met is one of the issues that has to be addressed in the current debate. And I have got to say to you this, in the context of the furious debate about Future Funds and what have you that is going on at the moment, it is my view that if it emerges that there are circumstances where the normal commercial forces are not going to provide critical investment for infrastructure, if it becomes apparent that government intervention is needed, desirable and proper, then the logical first option to fund it would be from the sale of proceeds.

The first steps though are to identify just what we need in terms of industry structures and infrastructure, and that's where we are at the moment. All of you who are involved in telecommunications will know that its awesomely difficult, one of the very prickly policy questions centres of picking of technologies, usually best left to the market. Sometimes governments have to prod these things along. We are weighing that one through at the moment, and I want to again express my appreciation

for the work that Senator Helen Coonan is doing in this regard, and many others, and I appreciate the input of many of you in this room. It is an historic opportunity to really set ourselves up for a very good telecommunications future as long as we have all got the courage not sit on our hands and backsides and just pretend that it will all go away and leave everything the way it is.

So the important thing now is that we address them quite seriously. We work through properly the reform issues that are raised, it is going to take a bit of time, all of us I think know a lot more now than we new a few months ago and that in part reflects the extraordinary way the use of technology is changing and the options are opening up.

Conferences like this one have an important role to play in the debate, and I thank for you for the opportunity for making a contribution today.