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MINISTER FOR FINANCE AND DEREGULATION
TRANSCRIPT

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JON FAINE: The Prime Minister, together with Senator Stephen Conroy, Minister for Communications, have just announced that they are not awarding a broadband contract to any of the remaining tenderers after Telstra failed to comply with some of the major conditions some time ago, and instead have announced a public-private joint venture with private investment up to 49 per cent of a do-it-yourself broadband network. Lindsay Tanner is the Minister for Finance in the Federal Government and was one of those at the Prime Minister's press conference and speaking briefly along with Wayne Swan as well. Lindsay Tanner, good morning.

LINDSAY TANNER: Good morning, Jon.

JON FAINE: Why?

LINDSAY TANNER: This is going to revolutionise productivity in Australia, Jon. Broadband is central to our economic future, and we've been lagging behind much of the developed world, and increasingly, a number of our partners in Asia as well.

JON FAINE: That's why you build it, but why aren't you awarding the contract to any of the people who have heavily invested in putting to you their particular offerings?

LINDSAY TANNER: The advice from our expert panel, which included people such as Ken Henry, the Secretary to the Treasury, and a number of other experts, was that none of the proposals that were put forward in the tender process broadly satisfied the objectives that we set out.

Clearly, the global financial crisis and the capital constraints that we're now experiencing across the world were a significant part of that.

JON FAINE: In what way?

LINDSAY TANNER: Well, because it's made it much harder for people to raise money to invest in these kinds of things. And clearly, the advice that we got was that we should consider moving to what the Telstra chief financial officer - chief technology officer has described as the end game, which is fibre to the premises, which means speeds of about 100 times what most people currently experience and which means that you will revolutionise productivity and the broader applications that you can get from broadband right across Australia.

JON FAINE: So none of the consortia, none of the particular offerings on hold were good enough. Why do you think if you go through it all again with a public-private joint venture that you'll come up with something better?

LINDSAY TANNER: What the Government's going to do is to establish a broadband company, a national broadband network company, and to invest initial equity in that company and seek private sector participation, minority investment by the private sector. We are then proposing, once the project is built - and we're expecting it'll take about eight years to get this spread right across Australia - then five years from that point, we intend to sell down the Government's stake to the private sector. It's a different proposal. It's currently a capital-constrained world, that's true, but we expect that, as things normalise, we'll get very significant private sector interest in participating here. This is the optimal version, Jon. The proposal we took to the election, which was the subject of the tender process that's just been terminated, was always seen as a stepping stone to where we are now heading. As a result of that process not producing an appropriate outcome, we decided just to go to the final destination.

JON FAINE: You asked people to tender for a thoroughbred racehorse and now it seems you're going to instead put a private-public camel together.

LINDSAY TANNER: No, look, I wouldn't accept that at all. This will have an enormous impact, an enormous impact on productivity, on businesses and on people - for students, for health services all around the country because it means that we will get speeds around 100 megabits per second. Typically, the ordinary person now, if they're lucky, can get maybe one to two megs per second. A hundred megabits per second is world class and it means that all kinds of things like electronic health, transmitting X-rays, all these things will become mainstream, normal activities in Australia. Businesses will be able to move data around. You'll get new business opportunities emerging through content provision, entertainment, all of these kinds of things, which are starting to emerge in other countries. But Australia is lagging. We have been in the bottom half of the developed world league ladder on broadband. Our prices are higher than many, and our overall access rates are not good. That's because of 10 years of neglect. We've got to move forward.

JON FAINE: Well, the alternative explanation is that's because Telstra was a near monopoly. You ruled them out because they didn't comply with your requirements. Does this now mean that you can get back in the post-Sol

Trujillo era to a better working relationship with the most likely provider, which is Telstra?

LINDSAY TANNER: It could do that, Jon. That's a very good point. And your point about Telstra's monopoly position is absolutely spot on. That's been the major problem. The Howard Government privatised Telstra without tackling the industry structure. This is something I, as Shadow Communications Minister for several years, banged on about, pointing out that if you've got a private company dominating the industry and dominating the infrastructure, it's not good for competition and investment. So we are making it plain. This will be a wholesale network. We will not allow any retail telecommunications provider to dominate it. It will be open to all comers to deliver services on. We would hope that Telstra, along with all other players in the telecommunications section, approach this project with enthusiasm and want to be involved.

JON FAINE: So they're back in the game?

LINDSAY TANNER: If they choose to be so, yes, correct.

JON FAINE: Well, they will, they will. They were trying to dictate terms was my reading of their tendering - their submission on the tender before. They said, either do it our way - not your way - do it our way or we won't play, we'll take our bat and ball and go home. So this means they have a second bite.

LINDSAY TANNER: It means they have an opportunity, along with all of the other plays in the telecommunications sector, to participate, to invest. But the ground rules are clear. It's a wholesale network only and it's open to all on equal terms. That means that the problem that we have had for many years since Telstra was first part-privatised, of the dominant infrastructure player also being the dominant retailer of services and therefore using its dominant position to squash competition. We will move beyond that. That will mean we will get better prices, more investment, more innovation.

JON FAINE: We'll see what happens to the Telstra share price later on this morning, Lindsay Tanner, whether that's reflected in the market as well. There's some commentary around saying that in fact any fixed-line broadband is going to be redundant by the time it's built, and you should be heading down the path instead of delivering broadband wirelessly as they do in South Korea and in other countries.

LINDSAY TANNER: Well, wireless is used as technology all around the world. But of course, much of broadband in South Korea is actually delivered by fixed line also. This has been a view that's been expressed by some for quite some time, Jon. I think the dominant view in telecommunications is still that fibre is the, as you put it before, the thoroughbred technology for delivering high-speed broadband. Wireless is an important part of the picture, and as part of our proposal, we expect wireless and satellite to play a significant role in some of the less populated areas. But the general view, and certainly the view of the expert panel, was that the technology that's going to

deliver you your best outcomes is fibre, and that's certainly the view that's been taken by countries in our region and around the world.

JON FAINE: A couple of more quick questions, Lindsay Tanner, and I know your time is very tight this morning. When? What's the timeline?

LINDSAY TANNER: We intend to establish the company very quickly. The implementation study that's going to work through a lot of the finer detail in these issues is expected to take about nine months. We've got a proposal put forward by the Tasmanian Government and electricity sector that we intend to move on very quickly, to wire up Tasmania, starting, we expect, in the middle of the year.

JON FAINE: Tasmania?

LINDSAY TANNER: Tasmania. In fact, you'd be surprised to know that Tasmania has quite a history of being the crucible for advance and experimentation in communications. There is - it's the first state that's had a stand-alone digital free-to-air TV channel, for example. It's had broadband through power lines experimentation. It's had the Launceston broadband project. But they just happen to have a very advanced proposal and are ready to move to get fast, super-fast broadband moving. So we're proposing to move there first. We expect the total project from commencement to ultimate completion for the - across the country, to take eight years. So it is a giant project. This is the biggest infrastructure project Australia has ever seen, and it will have a very big impact on our economy and our productivity. On average, it'll be involving 25,000 new jobs just in the construction. It'll peak at about 37,000 jobs. But it will be a huge enhancer of economic activity and innovation and productivity as it unfolds.

JON FAINE: Lindsay Tanner, I'm getting text messages galore. Japan run the world's fastest broadband on cable. It costs \$100, says Bob, to upgrade. And like all things Australian government owned, will they sell it and privatise it eventually? Fair question?

LINDSAY TANNER: Yes. The intention is that we will, that we intend, after five years after the network is all completed and up and running, to sell down the Government's stake, which, as I say, will be a majority stake, to sell that down to the private sector. The point is in getting it built. The problem we've got at the moment is the proposals for the interim stage, the fibre-to-the-node process, were clearly affected by the shortage of private capital around the world. Australia can't afford to lag behind the pack any more on this stuff, Jon. We are committed to getting it built. Once it's built and operating, the Government doesn't need to own it any more. The key thing is to get it built.

JON FAINE: Will the new broadband network have a clean feed, or will it be censored and filtered?

LINDSAY TANNER: Well, it's actually not the network. There's the issue there, Jon. The network, of course...

JON FAINE: It's the suppliers, the ISPs.

LINDSAY TANNER: That's right, the network, of course, is in a sense, the pipes; it's the road network. So it's a bit like - it's a bit like the road network and speed limits on cars. So there are very important issues involved there, but in a sense, they will essentially remain the same. Even though technologies clearly change and the mechanisms for delivering them clearly change, there is still an issue there about protecting children from pornography

JON FAINE: And Lindsay Tanner, some more feedback for you: Shock, horror, government builds vital national infrastructure for the people without profiteers. And: I work in the IT sector. This is great news, finally. Welcome to what Japan and Hong Kong have had since the '90s. I'm happy about this, says David. Fibre-to-the-premises is much better. The previous idea was a backwards one And another suggestion and a question, really, Lindsay Tanner: does this mean you're setting up a new monopoly, in effect, a government monopoly?

LINDSAY TANNER: It doesn't necessarily mean that because we already have a range of broadband services available. And of course, Telstra operates some of its services and it's just announced an upgrade to something like this standard for particular services in certain areas. So it doesn't necessarily mean that. But clearly, that's one of the issues that will unfold as to exactly what impact this has on the wider competition arrangements in the country. But the key thing here, of course, is, Jon, to make sure that, to the extent that this infrastructure does have monopoly characteristics - and you would certainly expect it to be dominant, to be a really dominant part of the telecommunications market - that it remains wholesale only. So every retailer, everybody selling services, gets equal access to use it, like the roads, like a road network.

JON FAINE: Big ones and small ones. And just finally, Lindsay Tanner, if this is going to be government funded, what impact does it have then on government borrowings on debts and on the budget?

LINDSAY TANNER: There'll be a small impact on the budget, and the wider impact, of course, is we set aside \$4.7 billion under our election commitment for the proposal that has just seen the tender process terminated. So that \$4.7 billion from the Building Australia Fund process will be the initial government equity. And we are anticipating we'll have to put in more equity and we will borrow money through the creation of Aussie Infrastructure Bonds that will be offered to ordinary citizens as well as to institutions. We don't yet know precisely what the mix of equity and debt in the company will be, and we don't yet know what the proportion of private investment will be. The company will, in effect, be a government business enterprise, like Australia Post, albeit with a minority private sector stake. So it will raise its own debt as well as the equity from the Government and the private sector.

JON FAINE: So it'll have an independent board?

LINDSAY TANNER: Yes, it will have an independent board. Australia Post is probably the best analogy, except that you will have private sector, minority private sector involvement.

JON FAINE: A hybrid, a very interesting thing. A hybrid is very much the flavour of the month at the moment, Lindsay Tanner.

LINDSAY TANNER: Yes, it's something - because we want to have the major players in telecommunications actively involved in this process, investing in it, because they'll benefit from it.

JON FAINE: Well, they might, unless it ends up like cable television where you had unhappy bedfellows, strange bedfellows, constraining each other's investment and efforts, and we ended up with a very inadequate service.

LINDSAY TANNER: Well, clearly there were some mistakes that were made, some decisions...

JON FAINE: A Labor Party initiative. Kim Beazley was the minister.

LINDSAY TANNER: in the way - in the way - by the time it was rolled out, I don't think he was the minister, from memory. I think it was Bob Collins by that stage. But certainly in retrospect, the way that that unfolded did have some deficiencies, there's no question about that. That's of course now 16, 17 years ago.

JON FAINE: But are the lessons learnt?

LINDSAY TANNER: Oh yes, I believe they are. And in fact, there's a regulatory paper being issued simultaneously with this proposal which goes into wider issues about the structure and regulation of telecommunications, and some of the issues raised in there are actually as a result of the experience not only of that process but, of course, the privatisation of Telstra and the structure of the market that's prevailed since that time

JON FAINE: I'm grateful to you for your detailed and thorough explanations. Thank you, Minister.

LINDSAY TANNER: Thank you very much, Jon.

JON FAINE: We'll see what the public make of it. Lindsay Tanner, the Minister for Finance.

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