



Government support for Broadband Access in Underserved Markets

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Let's start with some important questions ...

- Should access to broadband be considered an essential service for all Australians?
 - Is broadband access an unchanging commodity (utility) or a complex and evolving consumer product?
 - What supply-market structure will best serve us?
 - Should public funds be used to invest in broadband infrastructure?
 - Will the Sydney Swans win another premiership?
- ⇒ **Answers are uncertain and will vary by 'location' and through 'time'**

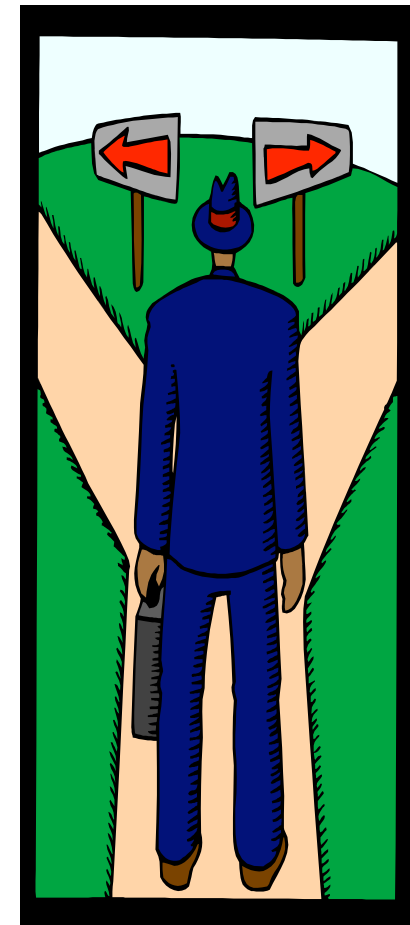


These questions translate into key considerations in creating appropriate policies for underserved markets

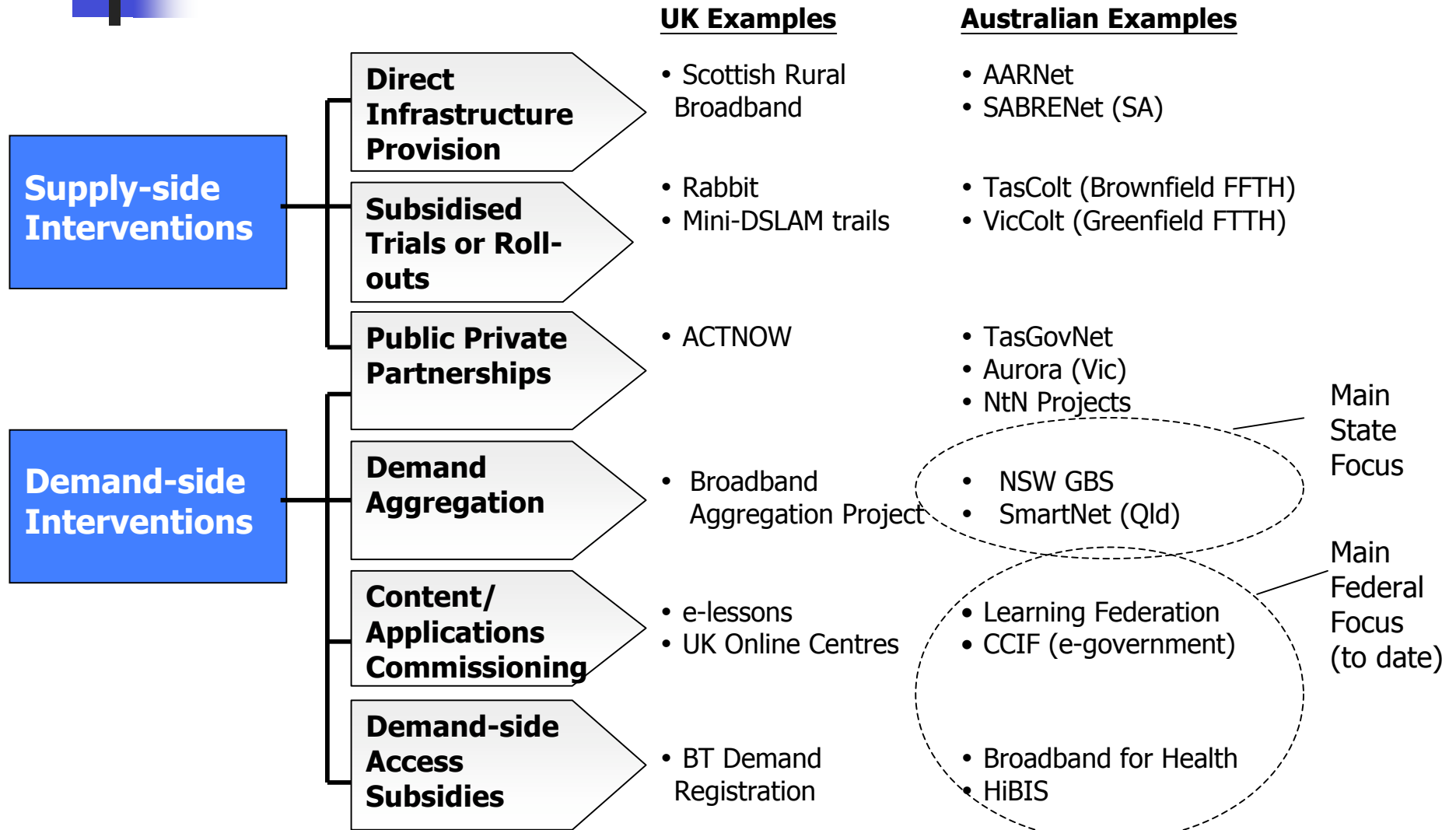
Should governments aim to:

- explicitly promote competition OR demand-side uptake?
- support a few large scale national projects OR a large number of smaller scale local projects?
- provide affordable basic broadband access 'for everyone' OR advanced applications for 'the majority' ?
- pick technology and/or service-provider 'winners' OR let customers decide?
- subsidise 'inputs' (e.g. infrastructure) OR 'outputs' (e.g. service delivery)?

⇒ **A wide range of policy options are available**



Globally, policy makers have 'spread their bets' on both supply-side and demand-side interventions, although, to date, demand-side solutions have attracted most financing





HiBIS has been the flagship initiative driving broadband access in underserved areas in Australia

Characteristics of HiBIS:

Demand-side led

- Eligible customers defined and registered
- Subsidy only paid to SPs once an eligible broadband black-spot customer signed up

Payment for services delivered

- Subsidy was for providing 'metro-equivalent' broadband services and prices, not infrastructure

SP and technology neutral

- No technologies or SPs mandated for any customers/areas
- However, Telstra is capped at 60% of total funding

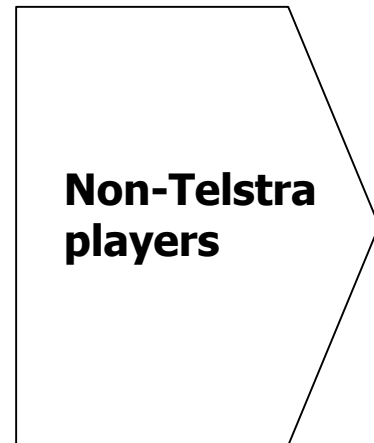


Delivered broadband access to 700,000 new premises

Over 1,000 rural Telstra exchanges enabled for ADSL



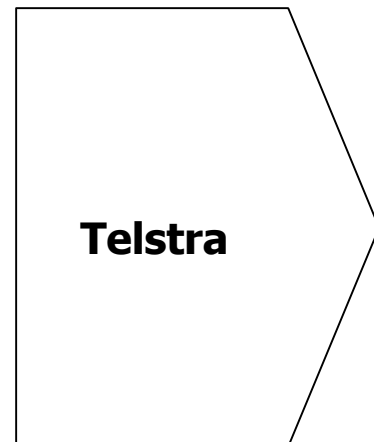
Despite HiBIS's successes, the supply-side of the market feels more could be achieved



- Biased towards legacy network technologies (e.g. Telstra ADSL);
- No funding for 'upfront' network capital;
- Telstra's 60% cap 'too high';
- Telstra would have eventually funded ADSL exchange upgrades anyway



HiBIS cements Telstra rural dominance, lacks innovation and only delivers 'lowest common denominator' services



- Telstra's 60% cap 'too low' to address the most disadvantaged areas;
- Funding competitive SPs un-necessarily duplicates infrastructure in remote areas



HiBIS funds insufficient and are poorly directed



Going forward, Broadband Connect has earmarked most of its \$878m funding towards a new supply-side initiative

Characteristics of the new approach to Broadband Connect:

Supply-side led approach

- Subsidies to fund a small number of major projects
- Seeking consortia of SPs to bid for up to \$500 million in funds

Subsidy for infrastructure deployed

- Subsidy is for deploying infrastructure in underserved markets, not services per se
- Winning bidders to provide wholesale access to networks deployed

SP and technology 'winners' to selected

- Beauty parade expected



This supply-side approach is a major departure from HiBIS, and has got various competing consortia quite excited

Direct supply-side funding may prove high risk as we are also increasing competition levels in these 'fragile' markets

Type of Policy Intervention

Broadband Connect Subsidies		Basis of competition ?	<ul style="list-style-type: none"> • Infrastructure based competition is highly unlikely to be viable • Is retail based competition sustainable and desirable?
Wholesale Network Access (e.g. ULL)		Mainly retail based competition using Telstra network	
Facilities Access (e.g. ducts)	Mainly infrastructure based competition		
	Very High (e.g CBDs)	Moderate (e.g. Outer Metro and larger regional towns)	Very Low (e.g. Remote 'Underserved' Areas)

Revenue per square mile



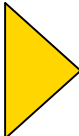
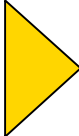


Other potential problems with supply-side interventions ...

- Hard to ensure capital is targeted at underserved customers (who are highly scattered)
- Measures inputs rather than outputs => Service Providers end up 'gaming' governments on where money spent
- No genuine market signals for pricing, product-demand, roll-out timing etc.
- Markets, technologies move quicker than schemes can act
- What is a fair wholesale access price on a publicly subsidised network?
- Compared with upfront subsidies, anchor tenants and market-share have proved much more important for the ongoing sustainability of new competitive infrastructure deployments



What are the alternatives (Plan B) ?

A combination of options might include:

- **Continue with HiBIS style approach**
 ensures universal access to minimum service levels
- **Extend HiBIS style approach to differentiate demand**
 - Tiered subsidies depending on benefits delivered by broadband to end-users
 keeps interventions on demand-side but recognises different needs and benefits
- **More creatively combine supply and demand side solutions** e.g.
 - Broadband SA (local champion + demand aggregation + competitive tender)
 exploits local demand aggregation and supply market opportunities
 - Reward successful demand aggregators and content/applications developers by putting them in control of funding
- **If BC goes ahead, consider restricting any network over-builds in underserved areas for a limited time**
 - Creates certainty for investors (lowers cost of capital)
 facilities-based 'competition' shouldn't be the main aim of 'equalisation' policies
 - Wholesale access could still encourage retail-level competition



Summary

- **Governments have generally favoured 'light touch' demand-side interventions for addressing market failures in underserved areas**
- **Somewhat courageously, Australia is now moving toward subsidising major infrastructure projects while, simultaneously, introducing greater levels of competition**
- **Given the risks, a 'Plan B' should also be considered - promoting more innovative demand-led approaches and a clearer focus on genuine service-delivery**



Background on Convergent Consulting

- Convergent Consulting is an independent consulting and corporate advisory practice specialising in the areas of telecommunications, broadcasting and convergent digital services.
- We are dedicated to providing the very best strategic, technical and investment advice to our clients. Our global experience extends across North America, Europe, Asia, Africa and Australasia.
- We are particularly adept at handling assignments that cover a complex mix of technical, competitive-market, financial, and regulatory issues. Typically, these assignments are focussed around producing assessments of competitive-market developments, revenue expansion opportunities, financial risk and returns, network deployment costs, and strategic technology advisory services.

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