

THE AUSTRALIAN

Federal election 2016: Labor's NBN assumptions are implausible

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Illustration: Eric Lobbecke

First there was the splurge on schools that will more than pay for itself (so long as you don't mind waiting until your unborn grandchildren reach pension age). Then came the tertiary education spending that will boost GDP by \$26 for every dollar spent (so long as the economic return on education rises twentyfold).

Now there's the \$3.4 billion in capital expenditure that will earn \$1bn in additional revenues each and every year until the end of time.

Welcome to Labor's plan for the National Broadband Network.

This is an area in which Labor has form, having set an Olympic record for the gap between promises and realities. By the time it was booted out of office, NBN Co's revenues were 91 per cent short of the 2011 corporate plan's objective, while operating expenses, calculated net of payments to Telstra and Optus, were running at twice the levels the plan envisaged.

In terms of actually building the network, the number of premises to which

fibre was effectively available was 89 per cent below the plan's target. And as a wave of disputes with contractors ground deployment to a halt in four states, the NBN looked well on its way to being dead before arrival.

In ordinary mortals, such a performance would induce a degree of caution. Not so, however, for the ALP.

Instead, Labor now asserts that its increased spending will allow NBN Co to provide fibre to an additional 2 million households: and that it will be able to do so without greater funding from government, delays in deployment or a material increase in the project's total costs. Indeed, the project's profitability will actually rise, with its internal rate of return going from 2.7 per cent to 3.9 per cent.

Unfortunately, Labor has refused to release the modelling it says substantiates those remarkable claims. And while its lengthy policy document suffers from an acute case of foot and note disease, exhaustively referencing the sins it attributes to Malcolm Turnbull, it provides virtually no detail on how Labor's estimates were derived.

Hiding behind that veil of secrecy, Labor's tactic has been to rely on ad hominem attacks when those estimates are questioned, as they were last week by Ian Martin, Australia's foremost telecommunications analyst. Yet it is obvious that the assumptions on which Labor's claims rest are scarcely plausible.

How likely is it, for example, that an additional 2 million homes could be provided with fibre for \$3.4bn, given that many of those homes are in areas where the connection costs per premise are up to twice those that figure implies?

And is it at all credible that NBN Co will be able to extract from business customers, who have other options, an additional \$1bn or so a year in revenues, each and every year from 2022 on, as Labor's uplift in the project's rate of return seems to require?

Faced with those uncertainties, a prudent investor would include a substantial provision for contingencies. Labor, it appears, intends to do the exact opposite, raiding the buffer built into NBN Co's corporate plan.

That is, no doubt, a Labor tradition: as the McIntosh-Prescott review found, it resulted in the contingency provision in the budget for the Collins submarine being barely 16 per cent of that the project needed.

But Labor's approach is not to frankly recognise the risks its strategy would create; rather, by further restricting the scope for entities such as TPG to compete with NBN Co, its goal is to ensure any additional losses can be hoisted on to consumers, just as it has with inefficient investments in renewables and in water desalination. That would be hard to justify under any circumstances. With NBN Co already planning substantial price hikes, it could be disastrous, most of all to the lower income households Labor claims to serve.

The facts are stark: NBN Co's accumulated losses exceed \$10bn, and they have been growing by about \$11 million a day. As NBN Co's corporate plan acknowledges, for those losses, and the ones that lie ahead, to be recovered, its monthly average wholesale charges must rise from \$40 to \$80 per customer over the next decade.

But that implies average retail prices of at least \$100 a month, far exceeding international benchmarks.

With mobile services becoming ever more attractive, those charges would incite consumers to abandon the fixed network. However, even were that escape route closed, the consequences of the price rises would be entirely perverse. After all, what could possibly be the point of spending billions of dollars building a very high speed telecommunications network if its charges ensure the vast bulk of households choose the lowest speed options (whose prices are locked in), as some 80 per cent of consumers are now doing?

The NBN would, under those circumstances, be the world's costliest "green whiskers" project, to use the term the great economist and Nobel prize winner William Vickrey coined for the tendency of governments to throw public money at a project, only to then do things completely inconsistent with their stated goals.

The example Vickrey gave was of vast airport expansions in banana republics: runways were upgraded to allow jumbos to land, but the charges

discouraged them from ever using the airport.

Just like the White Knight in Lewis Carroll's poem, the airport authorities went to all the difficulties of devising ingenious and expensive schemes for dying their whiskers green, only to "use so large a fan/that they could not be seen".

With the NBN already hurtling in that direction, it needs another dose of Labor folly as much as Bill Shorten needs green whiskers. With our luck, we may get both.