

The Australian

We'll pay dearly for this NBN folly

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EIGHTEEN months ago, Telstra proposed risking \$10 billion of its shareholders' money building a high-speed broadband network.

After that bid fell over, the government, dizzy with its success in the polls, decided to build a fibre network of its own. Why? Because, Kevin Rudd said at the time, the alternative would have been to pay Telstra "billions of dollars in compensation".

Last Sunday, the government announced an initial deal between Telstra and the National Broadband Network Company. Under its terms, Telstra will receive payments and benefits totalling \$11bn post-tax. On top of that, taxpayers will have to invest about \$40bn of their own money.

This, we are told, is a policy triumph. A triumph? As Pyrrhus said after the battle of Asculum: "One more such victory, and we shall be ruined."

Rather, the outcome and the process that led to it epitomise the problems that marked the Rudd experiment.

They were part of a project conceived in secrecy and haste. That project involved a huge expansion in public spending and in the public sector, and would have been rejected by any serious process of deliberation.

Once problems emerged, the government, rather than reconsider, tried to get its way by threats of expropriation. And as the government became desperate to get an agreement it could announce, it took from consumers and taxpayers, from whom costs could be hidden, so as to buy Telstra's however reluctant acquiescence.

Little surprise so little has been disclosed as to the details. But what is known shows how flawed the outcomes are.

Central to those outcomes is the heads of agreement, which has two basic components. A first, valued at some \$5bn, is a payment for NBN Co's use of Telstra's infrastructure. Fair enough. Given the decision, however questionable, to build the NBN, let it not duplicate facilities it could share. The remaining \$6bn, however, is deeply problematic, for at its heart is an agreement to suppress competition.

For that money, Telstra will hand over to the NBN the customers on its copper network without even seeking their consent. This avoids NBN Co having to win over those customers, reducing the need for keen pricing and competent management.

But it gets worse. For Telstra will also cease providing high-speed broadband service on its hybrid fibre coax network, which passes about 20 per cent of homes.

That network, which will continue to provide pay TV, has many years of life left in it. Decommissioning its broadband service so as to force customers on to the NBN spends scarce resources to destroy useful capital. It is every bit as inefficient as incurring costs narrowing Sydney's streets to force traffic on to the Cross-City Tunnel.

Why is this being done? Because the HFC, which already offers 100 megabit/second service in Melbourne, could give the NBN a serious run for its money. As the McKinsey/KPMG implementation study says: "In many countries, HFC networks compete effectively with FTTP networks to provide customers with high-speed broadband."

And while SingTel Optus has its own HFC, Telstra's is far better-placed to supply high speed service.

That NBN Co wants to be rid of so effective a potential competitor is unsurprising. But how can that be in the interests of the consumers?

The answer is, it isn't. Already, decommissioning the copper lines will eliminate the competition, based on use of those lines by Telstra's rivals, that has spurred rapid increases in service speed, coverage and affordability. By also removing the HFC, NBN Co will secure a monopoly that the implementation study recognises is unparalleled internationally. The consequent risk is not merely of monopoly pricing and poor service quality. NBN Co is government-owned, with all the potential that brings for inefficiency.

Telstra's HFC would have given regulators, consumers and taxpayers a benchmark for comparison. That benchmark gone, NBN Co's accountability is inevitably compromised.

Not that the resulting pain will be equally spread. Corporate customers, who are largely served by direct fibre optic connections, will continue to have many competitive options, including Telstra's own facilities. Rather, it is residential and small business consumers who will be sacrificed.

At how great a harm remains to be seen. But what is clear is that nasty shocks lie ahead. Consider this. As part of the deal, the government has offered a range of policy changes. Details are scant, but one is the creation of a new government business, USO Co. That business will bear some part, probably large, of the costs of shifting customers from the copper network to the NBN.

These costs, potentially in the order of \$1bn, are entirely attributable to the NBN; they should appear on NBN Co's books. But they won't; nor will NBN Co have to convince consumers to bear them by offering a compelling value proposition. Rather, they will be paid for through a barely visible tax on all telecommunications services, including mobiles and wireless.

Overall, it would be difficult to design a worse outcome. It is this kind of policy-making, caught in its thicket of confusions and contradictions, that so fatally damaged Rudd's standing.

And it is policies such as these that need to be reconsidered if the new Gillard administration is to be any more than old wine in a new bottle.

Whether that reconsideration will occur it is impossible to say. But those who moved on Rudd were hardly innocent bystanders when these decisions were taken. If they opted to oust him, it was not because they rejected those decisions, but because like Tancredi, in Giuseppe Tomasi di Lampedusa's *The Leopard*, they recognised that "if we want things to stay as they are, things will have to change".

Yet they are now regicides. And like all regicides, they have little choice but to march backwards into battle, not merely because they must be fearful of themselves being the next victims, but also because they cannot simply ignore the past errors in which they played a crucial role.

Those errors have now lost Rudd the historical reputation he was capable of and should have earned.

Like Rudd, Gillard has extraordinary capabilities. It is up to her to show that she is genuinely willing to learn from, and correct, the policy mistakes that have cost her predecessor and the country so very dearly.