

# National Competition Policy and Broadband Provision in Australia

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## INTRODUCTION

National Competition Policy (NCP) implemented in Australia from 1995 has had a profound effect on the mode and level of service delivery in nonmetropolitan regional and rural areas. The implementation of NCP followed the lead of other countries in corporatising, segmenting, and privatising many state and national government services and utilities and promoting open global competition as the framework for service delivery in the future. As government moves out of the role of service provision and into the role of industry regulation, there has been significant jurisdiction shifting in terms of responsibility for services, as well as reduced subsidisation for the cost of service over distance: subsidisation that was previously enabled through government-owned nationwide monopolies. This is more of an issue in Australia than in many other countries due to the large landmass and relatively small but dispersed population. Unlike many other countries, however, Australia has been slow to increase the proportion of overall tax revenue given to local government bodies to ensure regional service delivery or to impose community service obligations (CSOs) at local levels. Confused local bodies have been left to build expensive business plans to attract new services in areas for which they currently have little or no funding, and in which they previously had no responsibility or expertise. Local bodies are currently being requested to aggregate demand across government, private, and residential customer bases. Management of the delivery of broadband services is an example of the confusion faced by regional bodies in Australia in the wake of a recently corporatised government utility and a liberalised telecommunications environment.

## BACKGROUND OF COMPETITION POLICY IN AUSTRALIA

Like many parts of the world, Australia has embraced a programme of neoliberal reforms to liberalise services previously provided to the Australian population by government-owned and sometimes subsidised monop-

lies. The most significant development toward the liberalisation of the provision of government services in regional areas was the introduction of the National Competition Policy (NCP) in 1995.

The greatest concerns about the implementation for the NCP related to the effect on people living in nonmetropolitan areas where the “thinness” of markets meant that competition between suppliers was often difficult to establish. There were also concerns that market segmentation and the introduction of cost reflexivity leading to lower levels of cross-subsidisation—as often provided by government suppliers in the public or national interest—would naturally lead to higher prices in low-population-density areas.

In 1999, the Productivity Commission undertook an inquiry into the *Impact of Competition Policy Reforms on Regional and Rural Australia* and found the following:

*There would appear to be significant gains for the Australian community, and for country Australia as a whole, from implementing NCP reforms. The reforms are likely to have a more varied effect in country regions than in metropolitan areas, with implementation costs of some reforms being more evident in the former.* (Productivity Commission, 1999, p. 306)

In light of the fact that some areas were suffering more than others due to the implementation of the NCP, the Productivity Commission in its inquiry reviewed the measures that could potentially be utilised by the Commonwealth of Australia to mitigate the impacts of the NCP. These measures include the following:

- Action by the Australian Consumer and Competition Commission (ACCC) to limit anticompetitive behaviour
- Community Service Obligations (CSOs) to ensure that governments do not abrogate their responsibilities to provide an “adequate” level of service
- Policies designed to allow ubiquitous access to infrastructure and important services—the examples given are the Regional Telecommunications Infrastructure Fund and rural transaction centres
- Regional development policies designed to increase the level of activity in particular communities

- Horizontal Fiscal Equalisation (HFE)—intergovernmental transfers that provide states and regions with the fiscal capacity to provide an “average” standard of service to all citizens across Australia

These measures were also reviewed in the report, and all appeared to have their shortcomings:

- Legal intervention to prevent anticompetitive behaviour by the ACCC could often be evaded by the broad definition of “market” under the Trade Practices Act. Therefore, regional areas suffering from geographic monopolies often have no legal recourse for locally defined instances of market abuse.
- Cross-subsidies needed to implement CSOs were often no longer available due to the segmentation of government-owned monopolies and the introduction of free-market competition. Therefore, CSOs imposed upon government bodies were often unresourced, were suffering from diminishing resources or higher costs, and often reflected the political decisions of metropolitan constituencies.
- Access to infrastructure was in some areas effective but was seen by many as part of the ongoing problem.
- Regional development policies had failed in the past and often only succeeded in shifting business activity from one part of Australia to another.
- Horizontal Fiscal Equalisation (HFE) had been gradually eroded and had not kept pace with the real cost of service provision in the light of the privatisation of state and national services. Diversification of many industries also provided difficulties in determining an “average” standard of service (Productivity Commission, 1999).

## **LIBERALISATION OF AUSTRALIAN TELECOMMUNICATIONS**

Congruent with implementation of the National Competition Policy, telecommunications began to be liberalised in the early 1990s in Australia, and gained momentum in 1997 with the introduction of open competition and the partial sale of the government-owned incumbent telecommunications provider, Telstra. A universal service obligation (USO) was introduced with competition to ensure that every Australian citizen had the right to a well-maintained telephone service in the newly competitive environment. However, it was Telstra who remained the primary Universal Service Provider (responsible for providing a public telephone service). As the importance of data delivery

was recognised, the Digital Data Service Obligation (DDSO) was introduced to mandate that all Australians had access to 64 kbps data speeds—although this was a licence condition specifically inserted into the operating licence of Telstra (still majority government owned) and did not include price controls.

The introduction of new services in the form of increased bandwidth, or broadband, however, has been problematic. Not included in any national service obligation, the delivery of broadband services has been left up to market forces. As a result (and as would be expected), investment and infrastructure have been concentrated in population-dense metropolitan areas where yields are highest. Recently, competition has also followed ADSL-enabled telephone exchanges on Telstra’s infrastructure. Telstra has by-and-largely maintained the monopoly on the main telecommunications infrastructure into the home—the copper telephone wire. This, in turn, has led to significant geographic-based price and access disparities, and to an urban-rural, socioeconomic spatial polarisation, as the ICT investment enables further economic development, and the development of locational hegemonic social actors in the form of well-wired management hubs, a pattern of development that is not unique to Australia (Cornford & Gillespie, 2001; Graham, 1999).

A parliamentary inquiry into infrastructure development in regional areas in Australia in 2000 stated:

*Throughout the inquiry, the most widely held view was that, of all sectors, telecommunications infrastructure is the most critical in terms of the future development of regional areas on two grounds—(i) economic viability and development, and (ii) social cohesion.* (House of Representatives Standing Committee on Primary Industries and Regional Services, 2000, p. 115)

Most broadband services in nonmetropolitan areas in Australia are delivered via ADSL services at roughly comparable prices to ADSL services in metropolitan areas. The main problem for regional areas is reaching people and businesses that are out of range of ADSL services (more than 4.5 km from an enabled telephone exchange). For these people, the only broadband option appears to be satellite services, which are approximately four times the cost of ADSL. The estimates of people reliant on satellite technology vary from between 20–30% of the Australian population, but information available to the public regarding broadband availability and connections is scarce. Regional areas with highly dispersed populations (such as East Gippsland in Victoria or the Northern Rivers of Northern NSW) are currently likely to have much higher proportions of the population reliant on satellite services.

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