

Why it's time to hang up on USO

Modest member

A competitive regional phone market means that an opaque \$3 billion subsidy to Telstra can no longer be justified.



Dean Smith

Alexander Graham Bell said “sometimes we stare so long at a door that is closing that we see too late the one that is opening”.

While we can be confident he was not referring to Australia's telecommunications universal service obligation (USO), his observation is worth reflecting on when we assess its modern utility.

The principle of a universal service obligation can be first traced back to the 1970s in the Community Service Obligation (CSO) with Telecom. Over time it evolved into the “USO”, an agreement built on the principle of equity that guaranteed rural and regional Australians access to minimum telecommunications standards such as payphones and basic telephony.

Following the Telecommunications Act 1991, the newly named Telstra was saddled with the responsibility of delivering services under the USO, and the financial burden of funding was to be shared with competitors Optus and Vodafone. Relevantly, the framework was designed during a time when servicing non-metropolitan areas was prohibitively expensive.

Today the USO is an opaque \$3 billion arrangement between Telstra and the federal government, requiring taxpayers' and Telstra's competitors to subsidise the telco's Standard Telephone Services (STS) and payphones in regional Australia.

While the agreement is confidential in nature, we know Telstra will receive \$290 million nominally each year for the next 20 years, of which \$100 million is paid by taxpayers and the remainder to be levied upon Telstra's competitors.

This generous arrangement continues today despite a substantial reduction in services. Over the past five years the number

of Telstra-supplied rural STS's has fallen by an average of 5 per cent each year and payphone numbers have reduced from 30,000 to about 17,000.

We know Telstra has sponsored more than its fair share of Australian sport, but it's Telstra that deserves a gold medal for having convinced Canberra of the USO's ongoing utility in a digital age. While Telstra retains a dominant market position, the unleashing of competitive forces through deregulation has ensured Australian consumers have genuine choice in telecommunication services.

Thirty years of competition has also produced dramatic price reductions, more services and wider coverage with Telstra, Optus and Vodafone's combined reach now covering 99.3 per cent of the population.

But the USO is starting to show its age, and is losing friends.

The Productivity Commission, Australian National Audit Office (ANAO), and telco industry representatives have all challenged the existing USO arrangements.

The 2017 Productivity Commission inquiry's report into the Telecommunications Universal Service Obligation (TUSO) said the “costs of the TUSO are likely to outweigh its benefits” and called for its winding up by 2020.

The ANAO expressed a similar view last year when it revealed to Parliament that key program aspects “do not reflect value for money principles”.

Vodafone considers the USO an “opaque, inefficient, inflexible and outdated model which provides poor outcomes for consumers”.

Optus believes the USO is technologically outdated and more applicable to the “analogue era”, and said the \$290 million subsidy Telstra receives each year is well in excess of the operational costs incurred.

The report of the 2015 Regional Telecommunications Independent Review noted that standard telephone services are of “rapidly declining relevance”.

There is now an opportunity to widely consult alternative voices on how Australia can meet the telecommunication needs of regional and remote consumers and businesses, and regional communities would welcome a fresh approach.

Vodafone proposes a regime that provides both voice and data and is technology-neutral to ensure better alignment between the NBN and a modern USO commitment.

Optus ambitions are for a more targeted scheme to meet “real and not perceived gaps”

in consumer needs. It highlighted the need to quickly phase out Telstra's legacy copper network, encourage more competition, and to better account for the rapid pace of innovation should be technologically and competitively neutral.

If released from its obligation to pay Telstra almost \$45 million annually, Optus has committed to direct the same amount each year to providing more regional infrastructure and services.

Australia's telecommunications market is a testament to the virtues of competition and has transformed millions of lives across this continent. The upcoming release of the 2018 Regional Telecommunications Independent Review will provide a valuable opportunity to hang up on one of the last remaining vestiges of a bygone era.

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