



CONFERENCE REPORT

Telecommunications After 1997: Carriage, Convergence, Consumers
Sydney, 9 November 1994

Blowing Away Some Myths

Some accepted wisdoms about telecommunications futures were put through the wringer at a Sydney conference convened by the CLC in the lead-up to submissions to the Telecommunications Policy Review, which are due by 25 November.

For example, keynote speaker Richard Klingler, a US lawyer currently consultant to Telstra, threw out some provocative questions about the current concept of broadband services linking every household into national and international networks with virtually unlimited access to information, entertainment and interactive services. He believes that there is room for scepticism about taking the traditional Universal Service Obligation (USO) approach in the context of broadband services; indeed it is questionable whether the USO model is appropriate to broadband services at all.

A genuine USO in broadband services would be hugely expensive. A recent BTCE estimate put the costing at between \$3200-\$7500 for connecting a single household to broadband services capable of carrying both digital and analogue signals, and the cost of wiring of all Australian homes at between \$30-40bn. The traditional rationale for the USO is that the market will not provide for people who are less well off, or live in remote areas, and in future, without some form of intervention, the gap between the information rich and the information poor will only increase. Specific measures could be taken to ensure wide and equitable delivery, but the question is what form these measures should take.

Only a small fraction of current phone subscribers could afford broadband if they had to bear the cost, and it would be inequitable to leave it to individual households. Other methods are to fund it from taxes, or to have carriers and service providers fund it. Use of cross-subsidies for this purpose has the potential to create inequities; the effects of other users of telecommunications subsidising users of new services are unfair since the subsidy is often an impost on those who can least afford it. Alternatively, carriers may meet obligations by raising prices generally, which would adversely affect the least affluent users.

Klingler said that initially, the services provided will be prosaic: traditional video programming is likely to be the major offering, and video on demand will follow. True video on demand would still only offer access to film libraries or back catalogues of programs. Surveys to date suggest little demand for interactive services, and highly priced services will simply not be tried. Without customer familiarity with services, expansion is impossible.

What Klingler called 'vital services' - services to which everyone should have access - will, in his view, take a long

time to emerge after the initial introduction of broadband services. He suggested that it might be justifiable to have no USO at all until it is clear what vital services can be provided.

In the meantime, alternative approaches could be explored. Narrowband already allows access to a great deal of information, as users of the Internet know. A model based on telephony might be preferable. Satellites could be a more efficient form of delivery. PCs equipped to use CD ROMs could provide material, including interactive material, at a fraction of the cost of broadband services.

USO at Heart of Discussion

The issue of the USO and how it should be defined and achieved was central to the day's discussions. Everyone agreed that it was a valid concept, so long as they did not have to foot the bill or a large part of it. Alan Horsley of Vistel, a member of the BSEG, said that the very term USO carried 'horrible baggage' and should be ditched. He would prefer something like 'equitable access for users'.

Gerard Goggin of Consumers Telecommunications Network said that the USO should be viewed as an enhancement, not as an obligation in a pejorative sense. He said that broadband services should be considered a goal only for the long term in Australia, but suggested that the BTCE should look at the benefits as well as the costs of connecting all households to the network.

Speaking from the point of view of the dominant carrier, Deena Shiff of Telstra said that post 1997, the nature of the USO will change but the issues will remain the same. Telstra clearly envisages that the costs of the USO will be spread more widely than is currently the case; Shiff said that additional mechanisms will be needed for cost recovery in a multi-carrier environment. USO and interconnect costs will need to be revisited so that they reflect the role of those who benefit from interconnection, especially small niche marketers. She suggested that one way of dealing with consumer issues could be to separate them into different sectors like fair trading, advertising etc.

Internet as a First Step?

Chris Cheah of the BTCE's Communications Futures Project predicted that Internet will probably become the de facto public communications network. However, at the moment

Continued on page 8 ...



... Continued from page 7

it is too hard to use and the services are too basic. This will improve in 1996 when Microsoft 'gears up' and this area takes off.

David Gibbs from McKinsey & Co said that the Internet with its computer network architecture is leading computer companies closer to telephony, and has shown that such networks could compete with switched telephone networks. He saw advantages in the fact that computer networks are unregulated, have no access subsidy, and that charges are not distance-based (thus they are cheaper to use than STD or IDD) and time is not a major consideration.

Janette Wright of the State Library of NSW said that the libraries are arguing that they already have a network of community-based information services, staffed with skilled people and able to access databases. The library network ILANET allows access to AARNET/Internet. The Library proposes that a sensible first step towards universal broadband services, and one which would not cost anything like the BTCE estimates, would be to ensure that libraries in all areas, including rural and remote, can offer access to Internet. She said that we have already created a have/have not society, divided into those who can access Internet and those who do not even know what it is.

The Players

Deena Shiff said Telstra believes that any operator should be permitted to become a carrier, whether mobile or fixed, broadband or narrowband. Licences should be issued to all comers, subject to their financial and technical competence. Very compelling reasons would be required to hold back competition. Post 1997 will see the emergence of niche operators owning some of their facilities but operating in narrow market areas. Shiff said that the distinction between carriers and resellers was 'arbitrary and unsustainable'.

Doug Clements of Paynet, which was awarded the first Australian cable pay TV licences (for Cairns and Townsville) said that if the Government is serious about deregulation, everyone who has infrastructure in place by 1997 should be allowed to provide telephony. Pay TV will be the driver for the network and the next step will be telephony, followed by full interactivity.

Optus representative Andrew Bailey said that Telstra continues to enjoy major advantages which are not neutralised through the operation of competition law (later in the day he said that while the Government and Telstra know the extent of Optus's penetration, Optus itself does not). He argued for maintaining a distinction between carriers and service providers, and said that although Optus is a major provider of new network and builder of infrastructure, returns are still a long way off.

Alan Horsley said that whatever licence criteria are applied, there must be obligations on both carriers and service providers, since all were going to benefit. It is also vital that all arrangements be visible and open. Brian Perkins of AAP Telecommunications agreed and said that the service providers are paying for the USO now, whatever the carriers may say.

Perkins said there would be benefit to the community from both broadband and properly exploited narrowband services in a wide range of applications for the whole community, not just passive services like video on demand. Training must be available in order to empower the community to participate.

BTCE's Crystal Ball

Like Richard Klingler, Chris Cheah was cautious on the more extravagant claims for the next decade, seeing interactive broadband networks and services as a fairly distant prospect. Cheah said that convergence will throw up a whole new range of systems, but in the meantime, mobile communications will be the most important area of expansion, given that there are already 1.5m mobile phones in use.

Multichannel television will leap over old technologies and go into new systems simultaneously; digital telecommunications networks (ISDN, data, voice) will see many new services integrated into the telephony network.

David Gibbs said the carriers are trying to grab the advantage in building the consumer market for multimedia, particularly by means of involvement in pay TV, without really knowing what the demand is. Gibbs questioned whether this is the right priority, and proposed a shift back to a business and government focus, using the applications to advance the cause of Australian business and trade. 'Business multimedia will drive national development; consumer multimedia will drive national decadence' he said.

Gibbs claimed that even amid maximum competition, given the time and massive expenditure required before there can be any return from broadband services, some are seeing the benefits of maintaining a 'critical mass entity' like Japan's NTT. Carriers may not have the resources to establish broadband services unless they maintain monopoly access, as has happened in Singapore.

If Australia fragments its broadband highway provision, there is nothing to stop huge foreign companies like IBM gaining control of it. An advantage of the Internet is that there is no corporate owner.

He questioned the concept of multi-carrier legislation, saying that what is needed is *multimedia* legislation. The law should be reviewed and rewritten for 1997, for example in the areas of the cross media rules and copyright law, to take advantage of convergence and to encourage investment.

The carriers and service providers should be looking at innovative charging approaches, such as flat rate calls and a monthly rate which allows unlimited calls. He suggested new ways to approach the provision of the USO, such as smart card and digital wireless technology.

Continued on page 9 ...



... Continued from page 8

Consumer Concerns

Gerard Goggin of Consumers Telecommunications Network said it was encouraging to note the increasing prominence given to social and community goals, for example in *Beyond the Duopoly*, the discussion paper for the telecommunications review. However, he said that the Government's vision of social justice is flawed, and that the restructuring of telecommunications is a threat to social justice world wide. Merely dropping the cost of STD calls on thick routes is not equal to achieving social justice goals. CTN is preparing an analysis of the effects of competition on residential phone users and will submit it to the review early next year.

Over 300,000 Australian households are still not connected to networks. The upgrade of exchanges in remote areas will be largely ad hoc, and many consumers will lag behind the rest of Australia in access to the network. If interactivity is the key to the future and pay TV is the path, the plans of current providers do not inspire confidence. Optical fibre and other cable solutions are not likely to reach rural and remote areas in the foreseeable future.

In the US, Goggin said, consumer organisations believe the cost of POTS should decline and expanding basic services should lower rather than increase costs.

Chris Cheah said it was important to ask what types of consumers would use a service - for example, mobile phones had increasing consumer support while the use of Internet is limited. How important and how widespread would a service be, and are concerns about it valid or based on irrational fears? He said there needed to be a structured approach to consumer issues which would sort out what is really important and what is not.

The CLC's Holly Raiche said the Government needs clearly articulated communications goals, particularly about public access to information, and that these goals should embrace content as well as delivery (a concept

which has been promoted by the BSEG). She said it no longer makes sense to have USO goals just for telephony.

There must be public consultation in policy implementation. Many Australians still do not understand what has been going on in telecommunications since 1991.

She noted that as a carrier, Vodafone has rights and obligations, but the interface is between its service providers and their customers, and it is questionable whether Vodafone can compel its providers to comply with industry rules. Service providers are not subject to the TIO scheme.

If there are no longer to be industry-specific regulators, there must be consultative mechanisms at both a policy level and at the level where regulation is implemented, Raiche said.

The Environmental

Paul Mallam of Blake Dawson Waldron said that environmental issues would be a key factor in telecommunications futures. He questioned whether it was appropriate to allow a multiplicity of carriers to dig up streets for cabling, erect masts and antennas, or undertake other infrastructure work which could have adverse environmental impact.

Network duplication is arguably unnecessary and could involve considerable cost to the consumer, who will not benefit if this is what competition comes down to.



Brian Perkins of AAP Telecommunications suggested that the provision of infrastructure might be a licensed activity after 1997. There will undoubtedly be controls like the recently introduced Telecommunications National Code, and environmental factors will be an important licensing criterion. He rejected the idea that there would be infrastructure duplication, saying that it would be uneconomic and that no-one sets out to lose money.

The Regulator

A session on industry regulation, *Who Manages What Shop?*, predictably shook down into those who favour an industry-specific regulator (such as Optus and the current regulator, AUSTEL) and those who would prefer some other approach such as an economy-wide regulatory approach (Telstra).

Earlier in the day, several participants had raised this as a central issue in the post-1997 environment. Alan Horsley saw the need for an 'enabling and proactive industry-specific regulator' which makes things happen rather than waiting for them to happen. Brian Perkins said Hilmer, with its focus on monopolies, has no answers for today's telecommunications industry. Doug Clements called for one giant regulator with different divisions to handle different areas within the overall umbrella of communications.

Neil Tuckwell, chair of AUSTEL, said that consultative arrangements between AUSTEL, the ABA and the TPC were working well.

Despite a number of references earlier in the conference to convergence, and the emphasis on broadband services, it is interesting that no-one pursued the idea of a regulator which would encompass all the converging services, including broadcasting, in a co-ordinated approach taking account of the realities of the new, networked communications environment. □

Telecommunications Policy Review
Tel: 1 800 649 889 Fax: (06) 279 1569.