

January 2017

## RDA Wheatbelt Submission to PC Telecommunications Draft Recommendations

### Introduction

Regional Development Australia Wheatbelt Inc. (RDA Wheatbelt) makes this submission as a stakeholder and on behalf of the rural, remote and outer remote locations of the WA Wheatbelt. RDA Wheatbelt is a locally based, not-for-profit, incorporated association governed by a volunteer committee and funded by the Federal Government.

RDA Wheatbelt has reviewed the Productivity Commission's Telecommunications Draft Report with particular attention to the report's draft recommendations that hold relevance for the WA Wheatbelt Region. It is acknowledged by RDA Wheatbelt that the draft recommendations have been constructed within the terms of reference. However RDA Wheatbelt proposes that the draft recommendations with relevance to the WA Wheatbelt fall short in addressing the key USO issues of equitable accessibility and affordability for regional and remote telecommunication services.

### Overview

Within several references in the draft report it was acknowledged that every Australian should be afforded equitable accessibility, availability and affordability to telecommunication services no matter where they reside. That being said there was also an underlying subtle intimation that the question of equitability particularly in reference to internet access was dependent on where people lived and worked. That is, there should be an accepted difference with specific reference to affordability between urban and regional/remote consumers with an expectation that regional/remote consumers should accept higher costs for access to services. It would seem this premise is based on the assumption that regional/remote users would have access to telecommunication services, including internet, that will be less costly or that they did not have access to prior to the nbn. At its most basic this premise alludes to an approach that regional/remote users should be grateful for any improvement in service accessibility and decrease in costs regardless of what is available to urban consumers.

It could be argued that fundamentally regional/remote consumers will, in comparison to urban consumers, be expected to carry a cost penalty and in the case of Sky muster consumers carry an additional penalty in regard to data accessibility. On the surface this in market terms seems to be reasonable. At several points in the draft report the consideration of the cost of providing an affordably equitable service to all Australian consumers (wherever they may live or work) took into account the cost to the tax payers and service providers.

The “thin” regional/remote telecommunication market of the WA Wheatbelt and other WA agricultural and resource regions will not attract the level of competition or have the profit opportunity that urban markets will. However this assessment does not take into account the value of the revenue/wealth produced in the “thin” regional/remote markets to the domestic and national economy. The value of WA’s total agricultural production drawn mostly from regional and remote areas was almost \$8 billion in 2014-15 with the Wheatbelt producing \$5 billion<sup>1</sup>. In turn the regional/remote value of the WA mineral and petroleum industry in 2015-16 was \$84.6 billion which represented 96% of the WA total<sup>2</sup> and 53% of the total national value of the mineral and petroleum industry<sup>3</sup>.

These levels of revenue/wealth were generated by an estimated<sup>4</sup> combined regional/remote population of 382,000 which represented just under 15% of the estimated WA population in 2015 and only 1.7% of Australia’s population in 2015<sup>5</sup>.

Given these statistics, RDA Wheatbelt holds to the view that delivery of equitably affordable and accessible telecommunications services via fixed wireless or fibre to WA’s regional and remote areas represents an investment to the Australian taxpayers and not a cost. Although the Sky Muster service provides an improvement on what was previously available, RDA Wheatbelt remains concerned that the service is limited in its capacity to meet expected increases in data demand and maintain pace with ongoing technological developments.

As such RDA Wheatbelt views the extension and availability of the fixed wireless and fibre networks into outer regional and remote regions as a necessity in delivering sustainable telecommunications capacity to facilitate continuing economic development and growth. While it has been maintained by authorities that Sky Muster providers will have to service only 3% of the population, RDA Wheatbelt modelling illustrates a somewhat different outcome for the region. As noted in RDA Wheatbelt’s earlier submission, an internal analysis indicated that some 26% of businesses and 18% of households in the Wheatbelt would have to connect to Sky Muster providers. In addition the analyses suggested that connections to Sky Muster in the two sub regions of the Wheatbelt of Central East and Wheatbelt South that have a higher proportion of remote and outer regional locations would approximately be 49% and 73% respectively.

It is the view of RDA Wheatbelt that this level of reliance (on the limited data capacity) of Sky Muster services may seriously compromise the economic development and growth in these Sub regions as it could for other regional and remote regions across WA. A review of the nine WA Regional Development Blue Prints<sup>6</sup> show that access to efficient digital technologies is an underpinning theme in the ongoing economic development and growth for each region. Consequently, it is feasible that any efficiency shortcoming such as data availability or slow down load/up load speeds and or higher costs may constrain regional and remote growth in WA.

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<sup>1</sup> ABS. 2016. “Value of Agricultural Commodities Produced, Australia 2014-15”, 75030DO001\_201415.

<sup>2</sup> Department of Mines and Petroleum, Government of Western Australia. 2016. “Regional value summaries”.

<sup>3</sup> Department of Industry, Innovation and Science, Australian Government. 2016. “Australian Mineral Commodities”.

<https://www.industry.gov.au/resource/Mining/AustralianMineralCommodities/Pages/default.aspx>

<sup>4</sup> ABS. 2016. “Regional Population Growth, Australia: Table 5, Estimated Resident Population, Local Government Areas, Western Australia. Cat. No. 3218.0.

<sup>5</sup> Australia’s population history. 2015. [countrymeters.info/en/Australia](http://countrymeters.info/en/Australia)

<sup>6</sup> Department of Regional Development, Government of Western Australia. “Regional Blueprints”, <http://www.drd.wa.gov.au/projects/Economic-Development/Pages/Regional-Blueprints.aspx>

Given the potential for these issues to become major restraints in the future economic development and growth of regional and remote areas in WA, RDA Wheatbelt has formed responses to the relevant draft proposals. The aims of the responses are to avert potential medium and long term telecommunication outcomes that will adversely impact on the future growth of regional and remote regions in WA.

## Responses to draft proposals

### RDA Wheatbelt Recommendation 1:

The first recommendation of RDA Wheatbelt was that:

Universal Services Obligation provisions be extended to include internet and mobile phone services in regional and remote areas.

RDA Wheatbelt feels that the following recommendations do to a certain extent respond to its recommendation. However, RDA Wheatbelt is concerned that the recommendations do not include the direct reference to the Universal Services Obligation being changed to include internet and mobile phone services. Rather the recommendations focus on the guaranteed provision of services. As noted by other regional submission contributors, a landline connection can no longer be regarded as adequate in meeting both social and business requirements in regional and remote areas.

### **DRAFT RECOMMENDATION 5.1**

The Australian Government should reframe the objective for universal telecommunications services to provide a baseline broadband (including voice) service to all premises in Australia, having regard to its accessibility and affordability, once NBN infrastructure is fully rolled out.

### **DRAFT RECOMMENDATION 7.2**

The Australian Government should ensure that any further intervention with respect to guaranteeing retail service provision over NBN infrastructure is minimal. This should involve monitoring by the Australian Government of retail presence on NBN infrastructure and, if necessary, contracting one or more retail service providers to service geographic areas lacking retail presence.

### RDA Wheatbelt Recommendation 2:

The second recommendation that RDA Wheatbelt proposed was that:

‘The Government maintains national universal wholesale pricing through policy regulation and subsidisation for all regional and remote business and personal users.’

Again, the Productivity Commission’s draft recommendation (8.1) responds in part to RDA Wheatbelt’s recommendation but refrains from including an interventionist pricing mechanism. RDA Wheatbelt is at one level reassured that the recommendation includes the Government assessing the depth of the relevant market before a tendering process is engaged. The “thinness” of the Wheatbelt’s telecommunications market is a concern for RDA Wheatbelt particularly around service providers entering and remaining in the market and what this could mean in terms of accessibility and costs to Wheatbelt consumers. RDA Wheatbelt, along with other regional

contributors to the submission remain concerned about differentials in services provision cost structures between high population areas and low regional/remote population areas.

### **DRAFT RECOMMENDATION 8.1**

The Australian Government should use competitive tendering wherever feasible to deliver telecommunications universal service programs. As a first step, the Government should test the depth of relevant market segments.

Where there is no market depth and a competitive tendering process is not feasible, the Government should, at a minimum, subject all proposed program costings to an independent and transparent validation process. Where relevant performance comparators are available across programs, these should be used as a basis for benchmarking.

The level of these concerns were not reduced with the Commissions view that: “ *...these ‘market gaps’ and ‘market failures’ do not in themselves provide a case for government intervention because such interventions typically generate costs as well as benefits — both directly and indirectly.*” and “*Governments should only intervene where there are net benefits to the Australian community.*” (p.31)

Arguably the Regional Australia Institute (RAI) somewhat endorsed the Commission view with the statement that: “*regional Australians need guarantees that their level of access will remain comparable to the urban areas’ (p. 4) at an affordable price, where that price is not necessarily the same price as urban areas would pay.*”

This view was carried further by one participant that felt that an equity based approach was unreasonable as it would mean city users would subsidise users who had chosen to live in regional and remote locations. Coutts Communications (sub. 5) stated: “*In my view, it is unreasonable for users in regional and remote locations to expect exactly the same service quality and price (including usage) as those living in cities irrespective of the cost of provision.*” (p. 8).

In response to the Commissions view RDA Wheatbelt would argue that subsidisation of regional/remote user’s internet costs will generate a net benefit for the larger Australian community/taxpayer. This would be through facilitating increased access to markets thereby revenue for regional/remote businesses. This would not only encourage economic development in regional/remote areas but could also alleviate the risk of ‘stranding’ government investment in smaller communities that will increasingly need affordable digital access to maintain existing businesses and attract new businesses.

In turn, in response to the RAI’s observation that delivery costs to regional users should be expected to be higher than urban users, RDA Wheatbelt would like to point out that this is the case for those who are, or will, access the satellite service in the Wheatbelt. According to RDA Wheatbelt modelling, based on NBN current and future community rollout, it is estimated that approximately 19% of residences (does not include businesses) in the more remote areas of the Wheatbelt have or will need to access the satellite service. This compares to the NBN estimate of just 3% across Australia.

The modelling also showed inequities that extended across price, data availability and data use options. Sky Muster™ users are only able to access a maximum of 150 GB a month and a maximum of 70 GB during ‘peak’ period which is defined as between 7am and 1am with off peak being designated as between 1am and 7am.

The least expensive Sky Muster™ plan offers a third (33%) less data per month at 92% higher cost per gigabyte than the comparable fixed wireless/fibre plan. In addition, businesses connected to Sky Muster™ plan would only be able to access 10 GB of data per month during what could be termed as business activity periods whereas the fixed wireless/fibre plan offers data access at any time. Added to this was the condition that Sky Muster™ data allocations included both down loads and up loads while fixed wireless/fibre plans only included downloads.

Further, RDA Wheatbelt modelling showed that a medium telecommunications business plan consisting of: Internet peak data 65 GB (Off peak 85 GB); VOIP plus 10 GB mobile plan plus basic business landline plan was 40% more expensive over 12 months than a large fixed wireless/fibre package that included Internet anytime data 2000 GB bundled with landline plus 10 GB mobile plan.

Therefore, it could be reasonably proposed that this modelling indicates that regional/remote Wheatbelt Sky Muster™ business users are, or will be, at a greater financial disadvantage compared to their urban counterparts. In effect this contests Coutts Communications view that regional/remote users should not expect the same quality or service as urban users as it would appear that those reliant on Sky Muster™ will not receive anywhere near the same level of service or price as urban businesses.

These issues of service and price equity lead into the topic of affordability. The Commission's views of affordability were described as: *"the fundamental ability of someone to pay for a product relative to their income"*. This was refined somewhat with additional definitions that added the clause of: *"...without suffering undue hardship"* (Ofcom, 2014, p. 12); and *"...without sacrificing expenditure on other essential services and items."* (Pavlidis and Hawkins, 2015, p. 29).

In RDA Wheatbelt's view, the key element of affordability is *"...without sacrificing expenditure on other essential services and items."* (Pavlidis and Hawkins, 2015, p. 29). This not so much stands as a question about the present or the near future but rather further into the future when market size and dynamics may require cost adjustments and issues of price elasticity around consumer demand and service supply may arise. Earlier studies suggest that consumer demand for basic access to telecommunications services appears to be relatively inelastic (Vodafone New Zealand 2003) however it should be noted that much has changed in the market since 2003.

The Commission proposes that: *If services are highly substitutable, customers can trade off one service for another.*

RDA Wheatbelt takes the view that this would only be the case for urban areas where the market size would encourage a large number of services that would have to maintain a competitive position through price and service to continue or grow market share. The potential for the same situation to apply in the thin regional/remote markets is highly problematic. The major concern is that regional/remote markets may have fewer provider services to choose from and while initial prices may be affordable regional/remote users once fully committed to relying on the technology would be locked into an inelastic price structure.

This concern was reflected in the Broadband for the Bush Alliance submission which (sub. 6) observed that; *"... a lack of competition in many regional areas caused higher prices, lower quality and less choice than in metropolitan areas."*

RDA Wheatbelt concurs with the Broadband for the Bush Alliance's summation that:

*“...in these circumstances we believe it is neither fair nor reasonable to expect these consumers to pay more for their telecommunications.” (p. 8).*

### RDA Wheatbelt Recommendation 3:

The third recommendation made by RDA Wheatbelt to the submission was that: Additional concessions be kept in place or implemented for disadvantaged elements of regional/ remote populations to ensure their access to the social and economic amenities available to the rest of the population in inner regional and urban areas.

This was addressed to a certain extent by the Commission’s draft recommendation 7.5 in that the Commission acknowledged that some communities lack access to an alternative voice service such as a mobile service.

### **DRAFT RECOMMENDATION 7.5**

The Australian Government should establish a funding program for a form of community telecommunications service (such as payphones) that targets locations where premises do not currently have a satisfactory alternative voice service, such as a mobile service. This program should target particular needs and be flexible for delivery to such communities. This program should involve a competitive tendering process to allocate funding.

However, RDA Wheatbelt believes this recommendation should go further in offering internet access to such communities and does not address the digital disadvantage faced by Aboriginal communities in the Wheatbelt. As noted in RDA Wheatbelt’s submission just 32% to 47% of Aboriginal households in the Wheatbelt were connected to the internet at the time of the 2011 Census. While it is accepted that there is higher usage of mobile phones within the Aboriginal population there are also high levels of associated credit issues compounded in part by low levels of personal weekly income and cultural practices around communal sharing of resources and amenities.

Increasing the Wheatbelt’s Aboriginal population’s access to the internet is integral in facilitating improved educational and economic participation outcomes through their engagement in the Indigenous Advancement Strategy. While RDA Wheatbelt acknowledges that there are specific programs available to assist Aboriginal people in accessing various telecommunication’s facilities, RDA Wheatbelt also notes that access for the majority of support programs for Aboriginal people are only available via the internet. This is particularly the case for the Wheatbelt’s Aboriginal population which has extremely limited access to personal face to face consultation and advice in the region.

An observation by a Wheatbelt resident regarding the suggestion of providing payphones, (draft recommendation 7.5) was that residents without a vehicle and/or licence would not be able to access a payphone. This critically impacts on our youth and older residents. For other residents, travelling hundreds of kilometres to a payphone is not a viable prospect.

### RDA Wheatbelt Recommendation 4:

RDA Wheatbelt’s fourth recommendation to the Commission was that: Initiatives should be undertaken to utilise or adapt existing infrastructure to deliver more fixed wireless/fibre options to regional and remote areas. The 4-G network has extensive coverage in

the Wheatbelt but offers no provision for wireless internet services providers to utilise the network in outer regional and remote areas. Wireless service providers have comparatively inexpensive plans (e.g. unlimited data \$89/month) that could act as an alternative to satellite services or provide supplementary data.

The Productivity Commissions Draft Recommendation 7.4 does address possible solutions in regard to Mobile Black Spots that are an issue for the Wheatbelt but does not extend to the utilisation of existing infrastructure to deliver additional wireless options to the region's outer regional and remote areas.

#### **DRAFT RECOMMENDATION 7.4**

Before proceeding to the next round of funding under the Mobile Black Spot Programme, the Australian Government should implement the Australian National Audit Office's recommendations relating to that program. It should also: target the program only to areas where funding is highly likely to yield significant additional coverage; revise its infrastructure-sharing requirements to be consistent with the Australian Competition and Consumer Commission's findings in the ongoing Domestic Mobile Roaming Declaration Inquiry; and prioritise areas for funding based on community input — rather than nominations from Members of Parliament.

RDA Wheatbelt believes that the utilisation of existing infrastructure to deliver alternative broadband delivery options to the Wheatbelt is potentially feasible and necessary. The possibility of the option relates to the Commission's observations that service infrastructure and networks are more efficient and viable with greater numbers of consumers and higher levels of use. In addition, RDA Wheatbelt attach a high level of necessity to this proposal based on the limit of data available via Sky Muster™ and the potential increase in data demand once Sky Muster™ is fully operational in the region. NBN research, which has identified an exponential rise in business and household data usage Australia wide suggests that once Wheatbelt consumers have increased access to internet services their data demands will also increase.

Given the initiative to digitise the Wheatbelt and the increasing use of digital applications in agriculture and other industry sectors across the region it is important that every option is considered to ensure economic development and growth is not impeded due to limited data availability. Fundamentally for the Wheatbelt, the broadband networks are the 21<sup>st</sup> Century equivalent of the 20<sup>th</sup> Century rail networks and will, if implemented efficiently, act in the same way as the rail networks did in driving the economy and growth of the region.

#### **RDA Wheatbelt Recommendation 5:**

The final recommendation made by RDA Wheatbelt in its submission was that: Consideration should be given to developing and implementing co-investment strategies between Federal, State and Local Governments with industry and business in consultation with local communities to increase access to fixed wireless infrastructure in the region thereby reducing reliance on a telecommunications resource with finite future capacity.

This recommendation was not included in any form in any of the Productivity Commission's draft recommendations. While the Commission did address potential funding options to deliver a revised Universal Service Obligation that may also include broadband data it would seem that this topic may be the subject for further discussion.

## Discussion

While RDA Wheatbelt welcomes this enquiry, there is a perceived sense that the conditions in WA in general and the Wheatbelt specifically, along with other regional and remote regions have only been partially acknowledged. Of note was that RDA Wheatbelt was the only submission listed in the Draft Report identifiable as a submission from WA and was quoted on three occasions in the report. There was one other WA submission quoted in the report being on behalf of the Regional WA Stakeholders within the Wheatbelt, Midwest and Great Southern regions which was not recorded in the list of submissions to the draft report.

Equally there were no identifiable WA agencies, organisations or individuals recorded in the Draft Report consultation list. In addition it would appear that WA interests will not be involved in the next round of public consultations unless interested parties are prepared to travel to the Eastern States to take part. The Commission will undertake further public hearings on the draft report between late January and early February 2017 in Cairns, Dubbo, Sydney, Port Augusta, Launceston and Melbourne. RDA Wheatbelt believes that the Productivity Commission should be petitioned to allocate at least one public hearing in WA or every effort should be made to ensure WA Regional interests are represented at the designated public hearings.



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