

# On telecoms, regulator chuting blanks

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Far from a success of public policy, the \$1 billion rural broadband subsidy won by Optus and Elders demonstrates once again the failure of the competition regulation.

Ever since Optus and Telstra rolled out similar cable networks in the mid-1990s, wasteful duplication has been the bogymen of telecommunications investment. Companies wield the term like a weapon when they want to avoid having to invest in their own infrastructure and, unfortunately, politicians listen.

This stands in contrast to the duplicated roll-out of Safeway/Coles supermarkets and the rival brand petrol stations located next to each other. Duplication in these cases is applauded as competition.

The roll-out of cable was one in which two private businesses went head-on for customers -- just as we see competing supermarkets at every shopping centre and bowlers along every major strip. This is genuine competition and investment with shareholders' funds.

By contrast, the latest Optus proposal to roll out broadband to rural areas is one that will be bankrolled by the taxpayer.

Broadband policy has, in the past few months, become highly politicised. For people who use the internet to watch high-definition movies, the ALP's \$4.7 billion fibre proposal would bring all their Christmases at once. But the cost to the taxpayer is daunting, especially considering that a private company, Telstra, is desperate to pay for the network itself.

The Coalition's plan is an attempt to cobble together the wide variety of longstanding subsidies to rural broadband users. Communications Minister Helen Coonan has put herself into the uncomfortable position of defending the merits of specific technologies -- the sort of "winner picking" that has long discredited national industry policies.

But broadband roll-out in Australia has been absurdist theatre since well before this year. And the Optus plan brings this theatre into sharp relief.

Most of the attention has been focused on choice of technology. Telstra claims the WiMAX standard won't work as advertised. But, while WiMAX will provide the Optus/Elders network with a link to the most remote Australians, much of their plan rests on the wireline technology ADSL2+, an upgrade of the widely used ADSL.

In contrast to the cable roll-out, or competition between supermarkets, this is taxpayer-funded duplication. Telstra, with its own shareholders' money, already has installed its ADSL2+ network in exchanges around the country.

Telstra will not switch its network in areas in which it is the only service available. For instance, in Tasmania Telstra has installed ADSL2+ in more than 100 exchanges. But only three of these have been switched on. This scenario is repeated across the country.

To Telstra, switching on the network risks its appropriation by the ACCC. The regulator would force it to be provided to other businesses at an artificially low price.

There are several competing telecommunications networks in Australia, wireline and wireless, but the ACCC sees the spectre of monopoly and the possibility of regulation everywhere.

Expropriating the value for innovatory business activity or new investment is a sure-fire way of stopping such activity.

Australia is facing deficiencies in infrastructure development in areas beyond telecommunications -- rail and port services being the other hot spots. In all cases the investment shortfall can be traced back to regulatory impediments.

This is the outcome of a flawed competition law, compounded by poor administration of the law both politically and bureaucratically.

The answer is radical reform. The existing regulatory framework punishes entrepreneurial investments that bring a new or improved service.

We don't regulate manufacturing plants or processes in this way. We don't regulate such innovations in software. We resist the temptation in those areas for very good reasons -- regulating them would grind down the economy's productivity.

We should cease regulating new investments in infrastructure unless we want to see the economy falling behind in technology and capacity.

In telecommunications this is extremely important -- the pace of technological change far outstrips the plodding feet of the regulator.

Today the conversation is about WiMAX and fibre to the node, but when the next, inevitable, upgrade is necessary, it will again be regulation that is holding investment back.

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