JULIE McCROSSIN: Ladies and gentlemen if you could take your seats and if anyone doesn't have a black lucky door prize number, if you wave, I'll come to you, we're about to do a lucky door draw.

Ladies and gentlemen, welcome back to our next session and thank you for coming back promptly. I have a beautiful box of chocolates to give away so I'll just quickly pull the lucky door prize and if you could squeal quickly with excitement, should you be the possessor of black D14. Is that you? She did squeal with excitement! It's more emotionally satisfying, there you are. That's great. Thank you. Look, ladies and gentlemen, it's my great pleasure now and I must say just before I start, we've been asked to speak a bit slower and I'm sure it's mainly me that will be the person but just in relation to the real time captioning but it's my great pleasure now to welcome our next key note speaker, group managing director and CEO of the Vocus Group and that also includes the provision of Dodo and iPrimus. Kevin Russell is an internationally experienced CEO with over 20 years’ experience in telecommunications including in Australia, the United Kingdom, the United States and Israel. And because I'm enjoying people's diverse backgrounds in this sector, Kevin's background is in accountancy and computer science so please welcome Kevin Russell. (APPLAUSE)

KEVIN RUSSELL: Thanks Julia. I'll try and speak slowly. You also have the Scottish accent to contend with as well, apologies in advance. Good morning everyone and thank you Deidre, thank you for the opportunity to speak today. It is fitting that the title for today's conference is communication consumables in the next ten years because the thing that will have the biggest single impact in the next ten years is the nbn. Over the last ten years there has been plenty of noise over how the nbn should be built and paid for, most of it highly subjective, I'll open with a few simple facts. While the nbn has delivered higher broadband speeds, it has also delivered significantly higher price. While in theory it provides a complete greater playing field in reality the larger broadband retailer has increased its market share. While the nbn has been a big, a huge public investment, it has come at the cost of private investment. There is a fundamental core problem with the nbn which is or has led to these inconvenient truths, put simply the real market value of the nbn is far, far less than what it cost to build. And because of this failure to recognise the underlying market value of the nbn assets left in a situation where no­one's decision making is driven as a monopoly targeting unrealistic financial returns rather than consumer needs and market reality. What can we do to get things right for consumers in the next ten years? First, the immediate priority should be to give consumers choice and make broadband pricing market led. Second, the medium-term priority should be to get back to encouraging infrastructure competition, instead of actively penalising it. And third, the long-term priority must be to get the settings right for nbn's ultimate privatisation. So, let's begin with the immediate priority, making broadband market led not monopoly let and giving consumers the right to choose. This is personal for us at Vocus, under our consumer brands of Dodo and iPrimus we have some serious credentials in this market. We're the fourth largest with 8% market share and we have over 450,000 nbn consumers. We've been in the retail market for more than two decades since the days of dialup, so we do know what we're talking about and we have an obligation to speak up on behalf of our customers and put simply nbn's pricing model is broken. Because nbn's financial targets are based on recovering its cost to build, rather than recognising the real value of the network prices are far higher than achievable in a market led environment and consumers are paying for it literally. Nbn's forward prices model manifests itself in three ways. One, the basic wholesale access cost is simply too high. Two, nbn's usage-based pricing guarantees prices will only go up in the future and three, nbn has been consciously forcing consumers on to higher cost plans whether they like it or not. So, let me tackle the first issue. Nbn's basic whole access cost is simply too high. Back in the days when most broadband consumers were connected via ADSL Dodo's pricing consistently trended downwards year after year. Consumers got more value or lower prices or both over time. This is in stark contrast to Dodo's nbn plans where all we've done is continually put prices up to cover in nbn's increasing wholesale costs. Since 2018 retailers have had access to the ADSL local loop service at a regulated rate of less than $15 a month. Compare this to a retailer's average wholesale cost on the nbn which today stands at $44. That's a 300% increase in wholesale costs from ADSL to nbn. And consumers don't have an option. They want fixed line broadband; they have to be in the nbn. As the ACCC chair Rod Simms has said, we were never meant to get a situation where some consumers in switching to the nbn would be left worse off by paying more or getting less. But that's exactly the situation we're in. The second way that nbn's forward pricing model manifests itself is the unprecedented growth in nbn's usage charge CBC. It's simple, CBC is a tax on consumers. It is a completely artificial tax; it charges something for nothing. It creates artificial scarcity where there is none. The overwhelming majority of broadband consumers are in unlimited download plans so they pay a predictable monthly rate. But retailers pay an unpredictable monthly rate which forces them to ration band width to manage costs. If nbn were led by consumer needs rather than its own financial requirements, pricing would be set to promote usage not ration it. This approach is inconsistent with almost every other Telecoms market around the world where pricing doesn't penalise higher usage. It is inconsistent with the underlying cost of the product, which does not directly increase with greater usage. And it is inconsistent with consumers' expectations for broadband at a fixed monthly price. From a consumer’s perspective buying broadband is not buying electricity where you pay for what you use because in electrical there's a cost attached to generating power. But unlike electricity there is no direct price attached to generating megabits of data yet nbn charges as if there is. Nbn would respond by saying it has only ever decreased its usage charge of time but while it may be may decrease its price constant download growth far outweighs these reductions and ultimately Australian consumers get paying more. This goes part way to explaining why nbn's average revenue per user has increased from $37 in 2013 to $44 in 2019 and is on track to increase to $49 in in the next few years. Meanwhile the ACCC has kept the price of ADSL at less than $15. The third way nbn's forward pricing model manifests itself is by forcing consumers on to more expensive plans. Since the introduction of nbn's latest pricing affordable broadband packages have been abolished in preference for higher speeds at higher prices, today nbn is measuring its success by how many consumers are in higher speed tiers, because this drives up nbn's revenues. It should be measured sus on how many are connected and let them choose speeds appropriate for their requirements and their budget. Nbn's started with an affordable 12 megabit broadband plans comparable in both service and price to ADSL plan which most consumers are transitioning from. But with the introduction of the new pricing the 12 megabit broadband speed tier was effectively removed. And the 25 megabit speed tier was rendered obsolete but price matched to a 50 service. As a result, if a user wants an affordable 12 or 25 megabit broadband plan they simply no longest exist. This shift plays into the hands of premium brands which charge premium prices and it hits value brands like Dodo which used to be able to charge affordable prices. It helps explain why Telstra's broadband market share has jumped from 41% on ADSL to almost 50% on nbn. And why the market share of value providers has been slowly but steadily decreasing since the new pricing was introduced. In Vocus's response to nbn's most recent pricing consultation, we said nbn needs to do something things to make broadband affordable again. One, abolish CCC to provide price certainty, two, move to full flat rates to give consumers a choice between affordable broadband or premium speed and three please remove the complex web of discounts non-recurring charges and rebates to provide certainty and simply for retailers as they create broadband plans. Without these changes Vocus will have no choice but to keep increasing retail prices in line with our wholesale nbn costs regardless of what Australian consumers deserve. To quote Rod Simms research recent speech, there is a fundamental question of fairness here for those on low incomes. We agree. This is personal for us at Vocus, these are our customers being left behind. The ACCC should be applauded for speaking out in defence of consumers particularly those on low incomes who are the forgot yep people in nbn's product line-up. I expect we'll see the next version of nbn's proposed prices within the next week or two. And when we see it, we will find out if National Broadband Network is listening. And if the National Broadband Network is willing to put consumers on low incomes ahead of its own financial interests because it's worth remembering that the ACCC has a back-up option to stand up for these consumers if nbn won't. As the record stands today only nbn's fibre to the premises network is covered by the special access undertaken accepted by the ACCC. Nbn's fibre-to-the-node, fibre to the basement, fibre to the kerb and HFC networks are not covered by this undertaking. And these networks account for 70% of nbn services available today, around 7 million premises. So if nbn won't set prices fair for people on low incomes, the ACCC has the fallback option of making an access determination which would give it the power to directly regulate pricing for those 7 million premises. Speaking on behalf our customers if nbn isn't prepared to act I do hope that the ACCC is. So having talked about broadband pricing I will now turn to my second point about how we should prioritise consumers in the next decade, by the measures which have been deliberately put in place to penalise competition are the consequence of the Coalition with the nbn I mentioned earlier, the real market value of the asset being far less than what it cost to build. As a result successive Governments have put up protectionist barriers to assist nbn in recovering in cost. Part of this problem is the original policy intent of the nbn which mandated uniform national wholesale prices, later amended to wholesale price caps, this approached baked in the expectation that nbn's profitable metro networks would cross subsidise the loss making networks, as a result, nbn had to be protected from competition and profitable metro markets or its ability to cross subsidise its other networks would be affected. Accordingly attempted to set up infrastructure competition to the nbn were penalised and consumers have suffered as a result. For example, in the ADSL market regulated pricing incentivised investment in competitive exchange equipment by pricing ULX access at less than $15 a month relating in competitive offers that brought down prices for consumer, the pursuit of required returns has sent the nbn market in the opposite direct. Rewind to 2010 many when the Government introduced legislation to designed to prevent network competition what it called opportunistic cherry picking. The Act was amended to require all new broadband networks to operate on a wholesale only open access basis the same as National Broadband Network. To two years later in 2013 TPG announced plans to roll out a fibre to the basement network taking advantage of grandfathering arrangements for existing assets, they plan to offer unlimited 100 megabit broadband for under $70 a month the same price some RSP offering 50 megabit plans for six years later. When asked about this competition, the nbn chair said the economics of nbn would be severely impacted. Since TPG's plan didn't breach the laws new carrier licence conditions were imposed which forced competitive telcos to offer wholesale service in the same manner as nbn and then nbn played catch-up, accelerated its own fibre to the basement roll-out which delivered similar services but at higher prices. As a result of these protectionist measures the competitive roll-out was scaled back and the potential benefit to consumers went unrealised. Sadly this was not the only case of legislative intervention designed to penalise infrastructure competition. In 2017 legislation was introduced to establish the regional broadband scheme but never passed the last part parliament. The Government has committed to reintroducing it to the new parliament by end of this year. Like anti-cherry picking rules this legislation penalises competitive infrastructure investment and protects nbn's internal cross subsidy from competition. It does so by imposing a tax of $7.10 per line per month on competitive high speed broadband networks and the revenues raised from competitive providers will be passed to the nbn. Once again, anyone that's invested in competitive fibre infrastructure will be penalised the protect nbn's cross subsidy and required financial returns. This new tax is not in the interests of consumers who will be paying for nbn even when not using it. If we want the goat it right for consumers in the next decade we have to get back to encourages infrastructure competition instead of actively penalising it. Up to this point, both sides of politics have head a conscious decision to pure sue the approach of nbn cross subsidising its regional networks, some may argue this approach is the fairest way to ensure regional consumers can access broadband under the same whole price caps as metro areas but I would argue that in the long-term the protectionism rived to sustain the cross subsidy costs more. It costs us the infrastructure investment that doesn't occur, consumers higher prices in metro areas due to the lack of infrastructure competition and it will soon cost consumers on competing networks $7.10 per line per month to subsidise nbn's losses but there is an alternative. If we as a country believe that there is a social benefit in regional connectivity which clearly this is even when there's no commercial case these networks should be funded from the Federal Budget rather than a market distorting cross subsidy. This would allow us to unwind the protectionist policies which penalise competition and will get back to incentivising infrastructure investment. This approach will deliver the greatest benefit to consumers. Which brings me to third and final point. The long-term opportunity is to get the setting right for the ultimate privatisation because that will set the foundation for how consumers are treated for the next decade. We can't repeat the mistakes of the past and as we consider the various approaches to privatisation, we must address the fundamental issue that the real market value of the nbn is far less than what it cost to build. Both sides of politics have committed to privatising the nbn at some point in the future. And when it occurs this will be the third major attempt to give Australia's fixed line market setting right. On the first attempt when the decision was made to establish Telstra as a vertically integrated telco Australia went against the global trend towards structural... And the second attempt in 2009, nbn was established as a structural separated wholesale only operator, but these good intensions were hampered by the fact it would cost more to build the nbn than the asset would be worth so the network would be dependent on legislative protection from competition to meet its required returns. So in the third attempt, what do we have to do to put consumers first? First privatised network must remain open access and whole only regardless of who buys it and how it is sold. Consumers have suffered from a vertically integrated monopoly model before we cannot repeat the mistakes of the past. Second, the Government must strongly resist the urge to fatten the calf by ensuring the existing protection from nbn enjoys today. The privatised network must be forced to compete against other providers in a market place which actively encourages infrastructure competition. Consumers have suffered from a lack of competition over the last ten year, they shouldn't have to endure it for the next ten. And third, the privatising network must be properly regulated unless it is a monopoly provider. In areas where there is no choice, consumers should enjoy the strong oversight of a regulator that has their interests at heart. Consumers have suffered from a lack of effective price regulation over the last ten years and they shouldn't have to endure it for the next ten. So, I'd like to conclude today by saying that if we want to put consumers first, the next ten years have to look very, very different to the last ten. For me at Vocus this is personal. The major prior priority is to give consumers price and make pricing market led. The major priority is to encouraging infrastructure competition instead of actively penalising it and if the long-term priority must be to get the nbn privatisation right because that will set the foundation for how consumers access the broadband services for decades to come. So thank you again for the opportunity to talk today and I hope you enjoy the rest of the conference. (APPLAUSE)

JULIE McCROSSIN: Thank you very much to Kevin Russell.