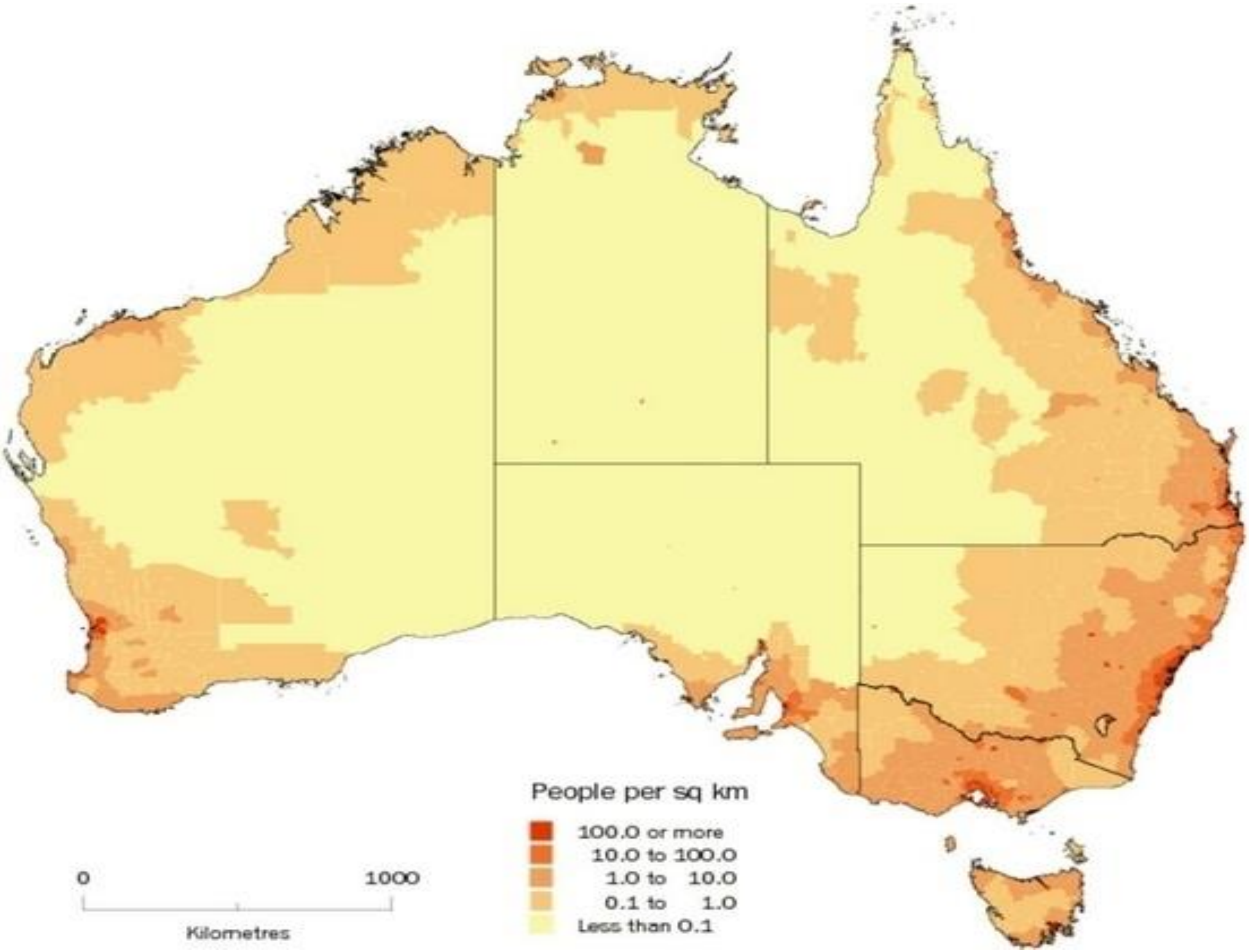
Yesterday's hero:

The current USO regime.

March 2015

Australia is really big

Australia's population density is really low



Current solution: subsidise one of the world's most profitable Telco's!

- $253 million per year to supply Standard Telephone Services
- $44 million per year to compensate it for the cost of supplying payphones.[1]
- $3billion over ten years.

The USO is an infrastructure subsidy dressed up as a consumer protection policy.

It is essentially a "copper continuity obligation" for areas where NBN is building fixed wireless and satellite.

1. Telecommunications Universal Service Management Agency (2014), Annual report 2013-14, p46.

What’s wrong with it?

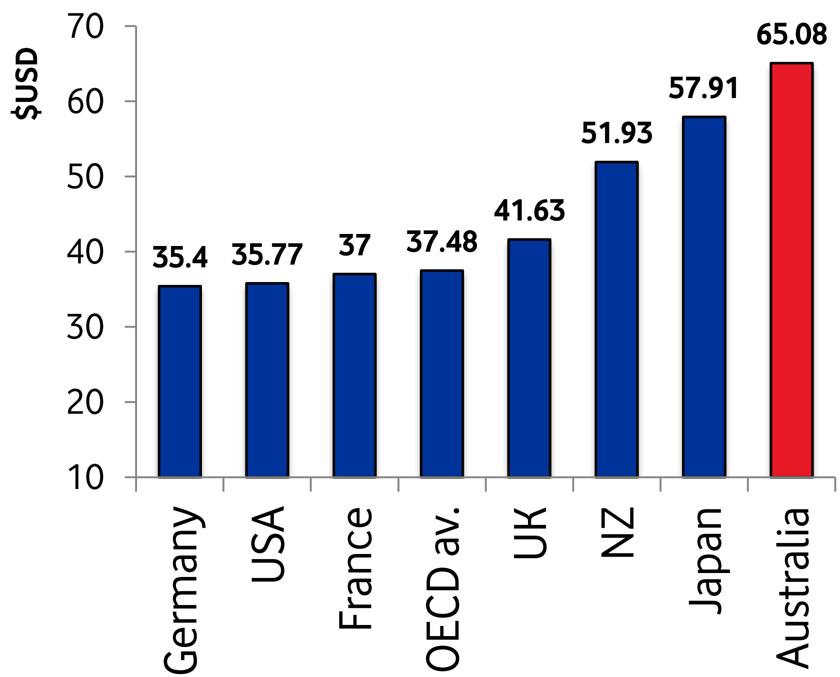
- **It is delivering an out of date solution**
  - Only the ‘STS’.
  - Not mobile. This is now an essential service too!
  - Not broadband. This is the future!
  - No choice of provider, just Telstra’s high prices.
- **USO areas are being overbuilt by NBN’s fixed wireless network**
  - Costly duplication, waste of funds.
  - NBN is delivering broadband!
  - VoLTE (HiFi voice quality).
  - IP based apps and services.
- **It is an anti-competition tax**
  - Major barrier to regional competition resulting in under investment.
  - Delivers Telstra more market dominance and higher Telstra prices.

Why is a flawed USO bad for consumers?

Answer: It's another reason why there is less investment, less innovation, higher prices in Australia.

- Highest PSTN prices in the OECD. Around 70% higher than the OECD average (~$20 per month more expensive).
- Fixed line broadband penetration is below the OECD average.

Incumbent fixed costs for a medium user



Source: OECD

Consumers want coverage and choice

83%

of regional consumers agreed that being able to choose their mobile provider is important

59%

of regional consumers agreed that they would change providers if another provider offered the same or better coverage

Regional Australians want

CHOICE

and Coverage

with their mobiles

So what should we be solving for?

Traditionally policy makers have focused on:

- **Infrastructure perspective:** massive geography.
- **Welfare perspective:** affordability, universality of access, rights need to be protected and adapted.

Should also look at:

- **Consumer perspective:** lowest price for <u>all</u> consumers, regional choice, funding should evolve with the times.
- **Competition perspective:** promote competition, encourage investment.
- **Industry perspective:** change with the times. Policy makers are persisting with an out of date solution.

But isn’t it too hard to change?

NO! There are already two significantly better alternatives.

NBN

- Delivering a better solution than the current USO regime.
- Open access.
- USO funds will reduce the market distortions of the NBN.
- Avoids taxpayers’ funds being used to duplicate infrastructure!

Blackspots program

- Mobiles now an essential services.
- A fair, pro-competition model.
- More funding means less blackspots.